

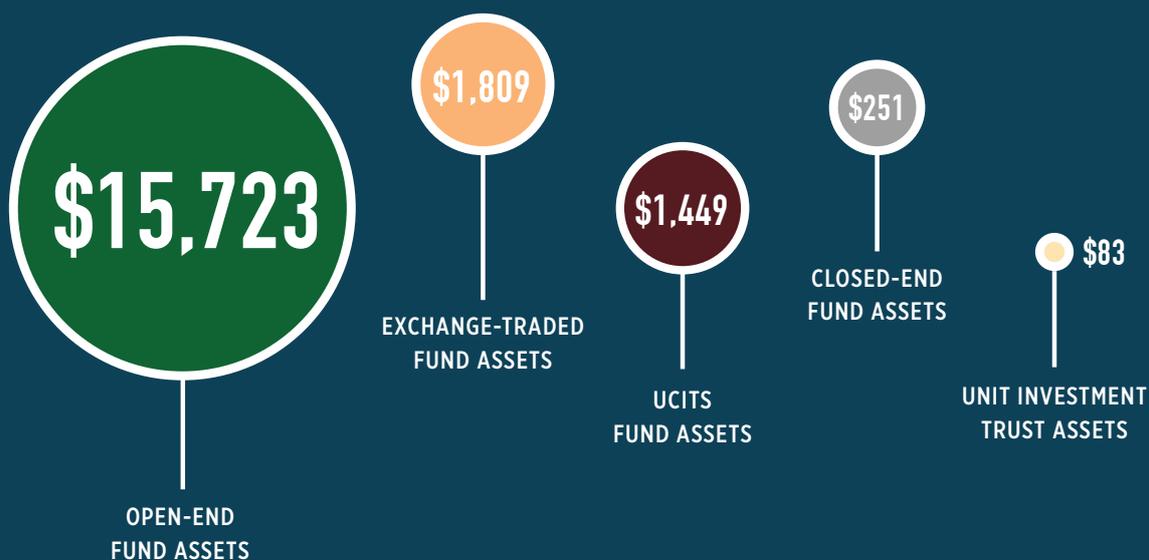
# 2015

ANNUAL REPORT TO MEMBERS

# ICI AND ICI GLOBAL MEMBERS MANAGE...

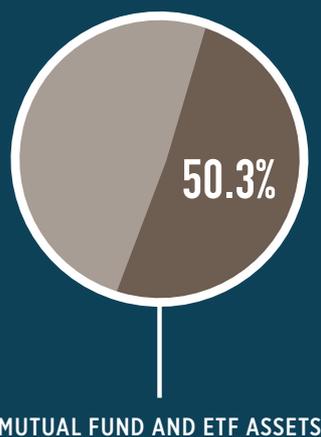
More than US\$19.3 trillion in assets\*

*Regulated fund assets, billions of dollars*



And account for 50.3 percent of assets in mutual funds and ETFs worldwide

*Percentage of assets*



\* Data for open-end fund and exchange-traded fund assets are as of 30 November 2015. Data for closed-end fund and UCITS fund assets are as of 30 September 2015. Data for unit investment trust assets are as of 31 December 2014.

Source: Investment Company Institute

# CONTENTS

## 02

### Letter from the steering committee chairman

## 03

### Letter from the managing director

## 04

### Supporting sound regulatory approaches and capital market initiatives

Providing perspective on funds and financial stability

Encouraging signs

Supporting the growth of EU capital markets

Engaging with Asia-Pacific policymakers on regional initiatives

## 06

### Raising awareness about private pension provision

Examining the growing role of private pension provision around the globe

Taking a holistic approach toward designing and evaluating retirement systems

Supporting a Pan-European Personal Pension product

## 08

### Question and answer: conversation with ICI Global's managing director, Europe

## 10

### Engaging on regulations with transnational effects

The importance of sound remuneration policies

Helping funds recover unduly withheld taxes

Advocating against the retroactive application of capital gains tax in the Asia-Pacific region

## 12

### Regulated funds and emerging markets: new ICI Global research offers fresh perspective

Setting the record straight: ICI Global addresses errors in IMF report

## 14

### Ensuring the fair and orderly operation of markets worldwide

Addressing regulators' concerns about dealing commissions

Encouraging appropriate and coordinated derivatives regulation

Examining the effect of regulatory developments on the buy-side

## 16

### Helping funds address cybersecurity issues and operational challenges

Supporting fund operations around the world

Information security: keeping up with a rapidly evolving threat

## 18

### Deepening engagement with members and the media

Responding to funds' needs through member events

Strengthening and broadening membership in the Asia-Pacific region

Promoting the importance of regulated funds

## 20

### Appendices

APPENDIX A: Organisation

APPENDIX B: Steering committee

APPENDIX C: Leadership and staff

APPENDIX D: Committees and task forces

APPENDIX E: Members

APPENDIX F: Key appearances and events

## 26

### ICI Global action on select policy developments, calendar year 2015

# LETTER FROM THE STEERING COMMITTEE CHAIRMAN



## Campbell Fleming

Chairman, ICI Global Steering Committee

CEO for Europe, Middle East and Africa, and Chief Operating Officer, Columbia Threadneedle Investments

In the face of demographic, economic, and political pressures worldwide, funds and their managers must adapt faster than ever to serve the needs of an increasingly growing and global investor base. No other organisation better understands the opportunities and challenges that funds face in this rapidly changing environment than ICI Global.

During its fourth year of operations, ICI Global's presence on the international stage grew even stronger. It continued to work on a host of policy issues, broadened its membership, and deepened its engagement in key jurisdictions, specifically in the Asia-Pacific region and the European Union.

The Asia-Pacific region has potential for tremendous growth. To help members better understand regional policy developments, ICI Global hosted seminars on a variety of important issues and launched a series of networking events allowing members to learn from one another. ICI Global also worked to ensure that policymakers understood the needs of fund investors—whether that meant offering suggestions to regulators about the

development of the Asia Region Funds Passport or meeting with Japanese policymakers about strengthening their capital markets.

The results of ICI Global's work in this important jurisdiction are clear: a more powerful presence in regional policy debates on behalf of a growing membership. In addition to its existing membership in China, Hong Kong, and Japan, ICI Global added three new Asia-Pacific members—a new fund from Japan and its first members from South Korea and Taiwan—bringing the percentage of ICI Global members headquartered in this dynamic region to 30 percent.

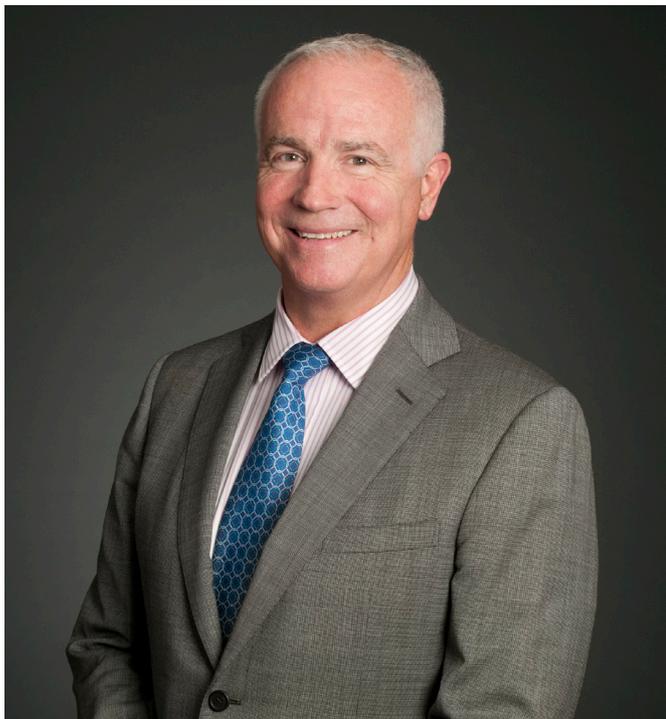
Another jurisdiction where ICI Global deepened its engagement is the European Union. To strengthen its presence and expand its policy reach, ICI Global hired Patrice Bergé-Vincent in 2015 as managing director, Europe. It also engaged on an important initiative designed to integrate Europe's markets, the Capital Markets Union (CMU), which will present opportunities for funds and their investors. ICI Global offered support and suggestions for this initiative through a comment letter, meetings with policymakers, and high-profile speeches.

As part of the CMU action plan, the European Commission will examine the cumulative effect of post-financial crisis regulation, to assess whether such regulation could—or has—inadvertently hurt the region's economic growth. This examination speaks to a tension at the heart of many current regulatory debates: the increasing need to strike the right balance between encouraging robust economic growth and guarding against potential systemic risks.

Funds and their managers play an important role in fostering economic growth. ICI Global understands this, and provides a powerful platform for members to engage constructively in these important debates by sitting on ICI Global's steering committee, participating in one of its policy task forces, or attending one of its international events.

The asset management sector is evolving—and so is ICI Global. During 2015, ICI Global broadened its membership, deepened its engagement in key jurisdictions around the globe, and strengthened its presence in policy debates worldwide. We look forward to continuing to serve our members and the global fund community in years to come.

# LETTER FROM THE MANAGING DIRECTOR



**Dan Waters**  
Managing Director  
ICI Global

Funds and their managers are experiencing unprecedented scrutiny from regulators around the globe. In this environment, ICI Global plays an especially important role for members. We have always been committed to helping funds and regulators work together to do what is best for investors worldwide. ICI Global continued this critical work throughout 2015 by deepening our relationships with influential policymakers while focusing on issues of importance to our members, including:

**The debate surrounding asset management and financial stability.** Last year, the Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) issued a second consultation on the potential designation of funds or their managers as global systemically important financial institutions (G-SIFIs). Through comment letters and meetings with policymakers worldwide, ICI Global argued against designation and explained why a sector-wide review of activities and products is the best approach to addressing any outsized risks within the asset management industry.

There are signs that this message is resonating with policymakers. IOSCO called for setting aside the G-SIFI work and instead urged a review of asset management products and activities. The FSB subsequently announced that it would undertake such a review, demonstrating that IOSCO and other securities regulators are now playing a greater role in a debate that for too long has been dominated by banking authorities. We hope the deep understanding of funds and their investors that securities regulators bring to these issues will lead to a more effective resolution.

**Cybersecurity.** Meeting investors' needs and protecting their interests are at the heart of our industry's work; thus, the battle against cyberthreats has long been one of our top priorities. To help further enhance cybersecurity within the asset management sector, ICI Global worked with IOSCO and led the development of a questionnaire that enables fund managers to assess their approach and resilience to information security risks. This annual survey will help ICI Global, fund managers worldwide, and IOSCO better understand how the industry is adapting and responding to cybersecurity challenges.

**Promoting the role of funds in retirement savings.** ICI Global cohosted its third Global Retirement Savings Conference with the Organisation for Economic Co-operation and Development and the International Organisation of Pension Supervisors. The Paris event, held last June, brought together 140 delegates from 47 countries—including nearly 100 national regulators, pension supervisors, and other government officials—to discuss the interaction between public and private pension systems, and the growing role that funds can play in such systems. ICI Global also hosted another event, in Tokyo—the Global Retirement Savings Summit—and met with Japanese regulators throughout the year about their efforts to reform the country's defined contribution system.

As you review this report, you'll find more information about our work with policymakers on these and other issues. I hope you enjoy reading about ICI Global's accomplishments during 2015—a year that set the stage for even greater plans and achievements in 2016, as we continue to advocate on behalf of our members and promote the importance of regulated funds for the benefit of investors worldwide.

# SUPPORTING SOUND REGULATORY APPROACHES AND

## CAPITAL MARKET INITIATIVES

*Policymakers worldwide are increasingly recognising that strong and diverse capital markets are critical to stimulating economic growth. Key to the development of such markets is a regulatory framework that supports the fair and efficient operation of securities markets and that fosters investor confidence. Because funds and their investors play a critical role in capital markets, ICI Global advocated against inappropriate regulations that would harm funds and their investors while supporting initiatives that would create opportunities for economic growth.*

### Providing perspective on funds and financial stability

The Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) issued a second consultation considering how to evaluate investment funds and asset managers for possible designation as global systemically important financial institutions (G-SIFIs). The proposed methodologies, like those proposed in the first consultation, were deeply flawed.

Through a comprehensive comment letter, vigorous engagement with policymakers, and high-profile speeches around the world, ICI and ICI Global leveraged extensive data and analysis, explaining that the methodologies were flawed for four fundamental reasons:

- They continued to place undue emphasis on size, proposing two alternative materiality thresholds that would single out large and unleveraged regulated funds for possible designation—funds that are not, and are not expected to become, sources of risk to global financial stability.
  - They added criteria to evaluate asset managers, despite the FSB's reasoned decision in its initial consultation not to focus on asset managers because they act as agents for their clients.
  - They continued to insist that methodologies for funds and asset managers should be broadly consistent with those used to identify G-SIFI banks, despite the fundamental differences between asset management and banking.
- They were based on theoretical concerns, rather than taking into account extensive evidence demonstrating that the existing regulation and defining characteristics of regulated funds make G-SIFI designation inappropriate.

Finally, ICI and ICI Global maintained that if regulators believe there are outsized risks within asset management, they should identify and address those risks through a marketwide, activities-based approach.

### Encouraging signs

There are signs that this message is resonating with policymakers. In June 2015, IOSCO called for a review of asset management products and activities, saying that it should take precedence over the work that it and the FSB had begun on methodologies to identify G-SIFIs in the asset management sector. 'I am not convinced...that there is evidence that asset managers put financial stability at risk simply because they are large,' said IOSCO Board Chairman Greg Medcraft during a speech in Washington, DC. In this respect, he added, 'I find the industry's recent commentary compelling.' ICI and ICI Global were further encouraged by the FSB's subsequent announcement that it would set aside its work on methodologies for designating funds or asset managers as G-SIFIs while it undertakes a review of activities and products in the asset management sector.

ICI Global has called for capital market regulators—rather than the banking regulators that dominate the FSB—to take a leading role in this review. Reports suggest that capital market regulators are indeed taking on more responsibility in the review, which is a



Watch ICI President and CEO Paul Schott Stevens discuss the role of funds in developing capital markets during a speech at the American Chamber of Commerce in Japan.

[www.iciglobal.org/accj](http://www.iciglobal.org/accj)

positive sign. The FSB, however, has not taken G-SIFI designation of funds or asset managers off the table. ICI Global continues to explain why regulated funds and their managers do not pose systemic risks, and to support a more prominent role by capital market regulators in any review of asset management products and activities.

### Supporting the growth of EU capital markets

The European Commission launched an initiative to diversify and deepen funding sources by integrating the region's capital markets. When realised, the Capital Markets Union (CMU) will present opportunities for funds and their investors.

In its comments on key parts of the Commission's CMU Green Paper, ICI Global urged the Commission to prioritise a small number of high-impact initiatives that would promote deeper and more liquid capital markets by:

- enhancing regulatory coherence;
- supporting strong retail engagement; and
- encouraging investment by reducing regulatory barriers and fragmentation.

ICI Global was pleased that the Commission's subsequent action plan took into account funds' perspective and that the Commission will focus on, among other priorities, removing national barriers to cross-border investment, facilitating international investment, and examining the cumulative effect of existing regulation.

### Engaging with Asia-Pacific policymakers on regional initiatives

Like Europe, Japan is focusing on developing and strengthening its capital markets, through the work of its Panel for Vitalizing Financial and Capital Markets. In a meeting with the panel and during a speech at the American Chamber of Commerce in Japan, ICI President and CEO Paul Schott Stevens discussed the key elements of strong capital markets and the powerful role that funds can play in them.

This past year also saw progress on several other initiatives that will help open up Asia-Pacific markets:

- Mainland China and Hong Kong launched their highly anticipated framework for the mutual recognition of funds, which ICI Global supported during a number of meetings with policymakers.
- Shanghai and Hong Kong launched their stock connect programme, and ICI Global offered feedback to regulators on its implementation.
- The Asia Region Funds Passport (ARFP) Working Group proposed rules and operational arrangements for its fund passport. ICI Global submitted extensive comments, urging the working group to address tax issues and offering feedback on other areas, including delegation, oversight, and data protection.



#### KEY MESSAGES

- The FSB and IOSCO issued a second consultation on designing methodologies for identifying funds or their managers as G-SIFIs. ICI and ICI Global responded strongly, explaining why designation is inappropriate, and calling for a sector-wide review of activities and products to address any outsized risks within the asset management industry. IOSCO subsequently called for a full review of asset management products and activities, while the FSB announced that it would set aside its G-SIFI work to undertake such a review.
- The European Commission launched its CMU initiative. ICI Global was pleased that the Commission took into account funds' perspective and is focusing on, among other priorities, removing national barriers to cross-border investment, facilitating international investment, and examining the cumulative effect of existing regulation.
- Asia-Pacific policymakers made progress on several capital market initiatives. ICI Global engaged by meeting with Japanese policymakers about the work they are doing to strengthen their markets, supporting the launch of the Mainland-Hong Kong Mutual Recognition of Funds framework, and offering suggestions to policymakers on the implementation of the Shanghai-Hong Kong Stock Connect programme and the ARFP.

# RAISING AWARENESS ABOUT

# PRIVATE PENSION PROVISION

*Demographic and economic pressures are straining government pay-as-you-go retirement systems worldwide. As a result, many countries have been examining their overall pension systems and considering reforms to their private and public pillars. In particular, governments have been focusing on strengthening their public pensions and on improving private pensions by reforming their occupational plans and creating opportunities for personal pension savings.*

*To help government officials, pension experts, and industry representatives from different countries share ideas and learn from one another as these examinations and reforms occur, ICI Global hosted two high-profile international events.*

*The first took place in Japan, where a rapidly ageing population and uneven economic growth have spurred the government to initiate a series of reforms, including to its defined contribution (DC) system. The second event occurred in France at the headquarters of the Organisation for Economic Co-operation and Development (OECD), which has been a leader in helping countries develop adequate and sustainable pension frameworks. During the year, ICI Global also worked with members to provide input on an ambitious EU pension initiative: a voluntary, Pan-European Personal Pension (PEPP) product.*

## Examining the growing role of private pension provision around the globe

In April 2015, ICI Global hosted its Global Retirement Savings Summit in Tokyo. Speakers from Japan, the United Kingdom, and the United States described each country's experience with designing and reforming their DC systems, and discussed how the use of automatic enrolment, target date funds, and behavioural economics can help individuals build retirement savings.

Keynote speaker Naoyuki Yoshino, dean of the Asian Development Bank Institute and professor emeritus at Keio University, spoke about Japan's economy and its asset management industry. In addition, he addressed the country's long-term savings challenges and his solutions for meeting them, which include developing a more robust 401(k)-style system, fostering greater asset diversification, and improving financial literacy. ICI President and CEO Paul Schott Stevens also discussed the success of America's DC system and explained how funds have played a critical role in that success.

## Taking a holistic approach toward designing and evaluating retirement systems

ICI Global followed this summit with its third Global Retirement Savings Conference, cohosted in Paris with the OECD and the International Organisation of Pension Supervisors (IOPS). Taking place in June, the event featured retirement savings experts from the OECD, Chile, Denmark, Hong Kong, the Netherlands, and the United States. More than 140 delegates from 47 countries attended, including nearly 100 national regulators, pension supervisors, and government officials.



*Naoyuki Yoshino, dean of the Asian Development Bank Institute and professor emeritus at Keio University, discusses his ideas for meeting Japan's long-term savings challenges.*

In his opening remarks, Juan Yermo, deputy chief of staff to the secretary-general of the OECD, discussed the key themes that have emerged from the OECD's work on the role of private and public pension systems. Speakers discussed the interaction between the private and public pension pillars in their countries, highlighting the need for governments and academics to take a holistic approach when designing and evaluating retirement savings systems. They also spoke about the particular challenges facing each country's system—including the need to increase coverage, improve adequacy, and create a workable default investment vehicle—and the steps being taken to solve them.

The key findings and insights from both events are documented in post-conference reports at [www.iciglobal.org/retirementpublications](http://www.iciglobal.org/retirementpublications).

### Supporting a Pan-European Personal Pension (PEPP) product

The European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are examining the creation of a PEPP product to help EU citizens build more private pension savings. Such a product not only presents opportunities for funds and retirement savers, but also complements the objectives of the EU Capital Markets Union initiative, given that countries with developed private pension regimes are more likely to have robust capital markets (see page 5).

In July 2015, EIOPA published a consultation analysing how to introduce a PEPP product. Recognising that pension systems

remain the prerogative of European member states, EIOPA explained that the product would not replace existing national personal pension products, but rather would operate alongside them, with a 'passport' allowing distribution in all EU countries.

ICI Global worked with members to respond to the consultation. In its comments, ICI Global explained that the PEPP product is an ambitious, innovative idea with real potential for EU citizens. ICI Global also highlighted the product's potential benefits, including how it could create efficiencies in cost, management, and administration by pooling assets across borders, and how it would better accommodate an increasingly mobile EU workforce.

Ensuring that the PEPP product is an attractive savings vehicle that people want to invest in is critical to its success. As such, the majority of ICI Global's response focused on the need for providers to have flexibility in product design. For example, the association disagreed with EIOPA's proposal that a PEPP should have mandatory guarantees or lifecycle strategies in each investment option, and it opposed fee caps. ICI Global also agreed that each PEPP should have a default option, and that a lifecycle strategy would be an appropriate default. In addition, ICI Global strongly supported EIOPA's recommendation that the specific design of the lifecycle option should be left to the PEPP provider. Finally, ICI Global urged EIOPA to consider how it might foster a tax approach that would enable a PEPP to be competitive across the European Union and facilitate the free movement of capital, explaining that a workable tax regime is crucial to a PEPP's success.



#### KEY MESSAGES

- ICI Global hosted a Global Retirement Savings Summit in Tokyo, featuring Japanese, UK, and US speakers describing each country's experience with designing and reforming their DC systems. Speakers also examined the use of automatic enrolment, target date funds, financial education, and behavioural economics in helping participants in DC systems build retirement resources.
- The third Global Retirement Savings Conference—which ICI Global cohosted in Paris with the OECD and IOPS—explored the interaction between private and public pension systems, highlighted the growing role for private pension provision, and examined the need for taking a holistic approach toward designing and evaluating retirement savings systems. Speakers from different countries also discussed issues surrounding coverage, adequacy, and default investment vehicles.
- EIOPA published a consultation on the introduction of a voluntary PEPP product. ICI Global's comments focused on the product's design, and also emphasised the need for a workable tax approach on a pan-European level.

# QUESTION AND ANSWER: CONVERSATION WITH

## ICI GLOBAL'S MANAGING DIRECTOR, EUROPE

*Europe is an important market with many opportunities and challenges for funds domiciled both inside and outside the region. To strengthen its presence in this market and expand its policy reach, ICI Global hired Patrice Bergé-Vincent in 2015 as managing director, Europe.*

*Bergé-Vincent came to ICI Global from PwC France, where he led the asset management regulatory practice. Previously he was head of the Asset Management Regulation Policy Division at the Autorité des marchés financiers (AMF), the French financial market regulator. He recently discussed the regulatory climate in Europe and how ICI Global's work there is benefiting regulated funds worldwide.*



***'By having a strong presence in Europe, ICI Global is able to quickly grasp regional and international policy developments, help our members assess how those policies could affect them, and advocate on behalf of them early in the regulatory process.'***

***– Patrice Bergé-Vincent***

### **How has the post-financial crisis regulatory agenda affected funds and their managers?**

They are facing an enormous amount of new regulation. Since the financial crisis, the European Commission has been working on 40 legislative initiatives, many of which affect funds worldwide. Yet there has been little coordination with other jurisdictions and a lack of consistency between the initiatives. Asset managers have had to grapple with conflicting requirements as they try to comply with each initiative.

There also are opposing economic and political forces driving the direction of regulation. European policymakers recognise the need for more market-based financing to spur economic growth. Yet there are two factors at odds with this need—some postcrisis regulatory initiatives could stifle the success of market-based financing initiatives, and there is currently little political momentum to support legislation to foster such initiatives. Indeed, some European policymakers still want to regulate the financial services sector more heavily.

In addition, market participants and policymakers are suffering 'regulatory fatigue,' which is understandable after the 40 initiatives. Yet as the need for economic growth increases, I remain hopeful that more policymakers will shift their focus from the regulatory agenda to encouraging market-based financing, which could create tremendous opportunities for funds.

### **How is ICI Global helping members navigate the many EU regulations that have cross-border effects, good or bad, for funds and their managers?**

Several EU initiatives could affect funds domiciled outside Europe, including the Capital Markets Union [CMU] initiative, reform of the Markets in Financial Instruments Directive [MiFID II], and remuneration frameworks for fund managers.

The European Commission launched the CMU initiative to diversify and deepen funding sources by integrating the region's capital markets. The CMU presents many opportunities for Asia-Pacific and US asset managers, because it could enable funds to play

a bigger role in financing the EU economy. ICI Global has been actively supporting this initiative and will continue to do so [see page 5]. The European Commission is also working on finalising MiFID II, which will affect non-EU funds and their managers in many ways. For example, under MiFID II, requirements for distributing funds to retail investors will be more stringent, which will make it more challenging for Asia-Pacific and US fund managers to offer funds in the European Union. In addition, MiFID II will likely change how funds can use dealing commissions to pay for research. This is a critical issue for members, and ICI Global has been vigorously engaging with policymakers to ensure that funds and their investors are not inadvertently harmed by the final rules governing the use of dealing commissions [see page 14].

ICI Global also has been working with policymakers on the importance of having appropriate and consistent remuneration requirements for fund managers under the fifth iteration of the Undertakings for Collective Investment in Transferable Securities Directive, or UCITS V, and the fourth Capital Requirements Directive, or CRD IV. Proposed guidelines on remuneration requirements under CRD IV are overly stringent, in part because they would apply to fund manager subsidiaries of banks, which already are subject to comprehensive remuneration policies under UCITS V [see page 10].

### **Regulators are also focusing on managing liquidity risk within the asset management sector. How has the European Union taken the lead on this important issue?**

In 2013, the European Commission implemented liquidity risk management regulations under the Alternative Investment Fund Managers Directive [AIFMD]. Among other things, this regulation requires asset managers to establish a liquidity risk management programme to ensure that asset managers have a robust policy in place to meet redemption demands. The rule takes a qualitative approach by leaving it to the manager to decide upon and maintain a level of liquidity that is appropriate to the fund's underlying obligations, based on asset values and market conditions. This kind of principles-based rule enables funds and their managers to appropriately manage liquidity risk without being constrained by overly prescriptive requirements that might not be appropriate for funds or the marketplace.

In 2015, the US Securities and Exchange Commission [SEC] proposed its own liquidity risk management rules. Though the SEC's proposal currently differs from the AIFMD's regulations, it also calls upon fund managers to establish a liquidity risk management programme that includes enhanced policies and procedures to meet redemption demands. ICI Global hopes that the SEC's final rules will be principles-based—in keeping with international standards—rather than overly prescriptive.

### **The European Union holds many opportunities for funds. What should non-EU funds and managers understand about the region?**

Europe is not one nation, but a union of 28 different member states with different political, cultural, and regulatory regimes. For example, the regulatory system in one member state might be more favourable to funds than the regulatory system in another country. Some member states might have regulatory frameworks that are friendlier to non-EU funds, because they want to encourage competition and investor choice, while other member states might have extremely prescriptive regulatory frameworks that favour national products, because they believe that nationally regulated products offer the best investor protections. In addition, some member states have more regulatory predictability and political stability than others. Therefore, it is critical that non-EU funds and their managers assess the regulatory and political climates in different member states before they establish operations or distribute a product in a particular country or throughout the region.

### **How is ICI Global's presence in Europe helping members understand and access the region?**

Europe holds many opportunities and challenges for funds domiciled in the Asia-Pacific region, the United States, and elsewhere. To seize those opportunities and address those challenges, funds and their managers need to understand the regulatory environment. By having a strong presence in Europe, ICI Global is able to quickly grasp regional and international policy developments, help our members assess how those policies could affect them, and advocate on behalf of them early in the regulatory process.

# ENGAGING ON REGULATIONS WITH

## TRANSNATIONAL EFFECTS

*Throughout 2015, European and Asia-Pacific policymakers proposed or continued work on many cross-border regulations—in particular remuneration guidelines and tax rules—affecting funds around the world. ICI Global engaged with authorities and members to ensure that such regulations do not inadvertently harm funds and their investors.*

### The importance of sound remuneration policies

It is critical that policymakers adopt remuneration guidelines for funds and their managers that encourage effective risk management while accounting for the unique nature of asset management. To that end, ICI Global engaged with EU authorities on remuneration issues under the fourth Capital Requirements Directive (CRD IV) and the fifth iteration of the Undertakings for Collective Investment in Transferable Securities Directive (UCITS V).

**CRD IV.** In comments and conversations with the European Banking Authority (EBA) on its draft guidelines for remuneration, ICI Global explained why the guidelines were inappropriate and would put funds captured by these guidelines at a competitive disadvantage. Specifically, ICI Global argued that the guidelines were problematic for two reasons:

- First, they are overly stringent, because they would apply to the staff of fund managers affiliated with CRD IV firms. Those staff already are subject to comprehensive remuneration policies under the Alternative Investment Fund Managers Directive (AIFMD) or soon will be under UCITS V.
- Second, the guidelines would fundamentally change how firms and member states can apply the principle of proportionality under the directive. Under the long-established interpretation of proportionality, firms or regulators can waive some remuneration requirements, based on an institution's size, scope, and activities. The EBA's revised interpretation, however, would not allow firms or member states to waive any requirements; rather, it would allow them only to implement stricter requirements.

**UCITS V.** In July, the European Securities and Markets Authority (ESMA) released a consultation on proposed guidelines for sound remuneration policies under UCITS V, which also addressed the issue of proportionality. Importantly, ESMA did not follow the EBA's proposed interpretation. Instead, ESMA proposed interpreting proportionality as it is interpreted under the AIFMD, which would permit fund managers to waive certain remuneration requirements in some circumstances. In its comments, ICI Global expressed support for ESMA's reading of proportionality.

### Helping funds recover unduly withheld taxes

Some EU member states have imposed withholding tax on dividends paid to foreign funds, while exempting 'comparable' domestic funds from the tax. ICI Global members have challenged this practice, and some European courts have declared it unlawful, ruling that the article governing the free movement of capital under the Treaty on the Functioning of the European Union protects both EU and non-EU funds from discriminatory taxation.

To help members recover this improperly withheld tax, ICI Global explained to European government officials why US and EU funds are comparable, supported members' litigation efforts, and filed complaints with the European Commission. So far, these efforts have helped members recover taxes from three countries; ICI Global continues its work on this issue.



Watch Keith Lawson, deputy general counsel, tax law, discuss ICI Global's work on tax issues facing funds and their investors.

[www.iciglobal.org/lawson](http://www.iciglobal.org/lawson)

## Advocating against the retroactive application of capital gains tax in the Asia-Pacific region

**India.** In early 2015, Indian tax auditors asserted that non-Indian funds owed an 18.5 percent capital gains tax retroactively, under the two-decades-old minimum alternate tax (MAT). ICI Global responded forcefully, making five submissions to the Indian government, leading an industry coalition, and joining a lawsuit in the Indian Supreme Court.

The Indian government formed a commission that ultimately agreed with ICI Global that the tax was never meant to apply to foreign funds. The government subsequently announced that it would advance legislation to clarify this point.

**China.** Substantial uncertainty has surrounded the application of a 10 percent capital gains tax on non-Chinese funds, enacted by China in 2008. Though China had never collected the tax, the launch of the Shanghai–Hong Kong Stock Connect programme in late 2014 raised concerns among ICI Global members that the country would begin to do so.

In a comment letter, ICI Global urged China to clarify that non-Chinese funds are exempt from the tax, both retroactively and going forward. China granted a temporary exemption, which ICI Global welcomed. But the association expressed disappointment that China did not specify how long the exemption would last, as well as concern that China was planning to collect the tax retroactively. In a second comment letter, ICI Global strongly recommended that the country:

- decide upon a short retroactive period;
- allow funds to account for losses when calculating gains;
- avoid charging funds interest or penalties on the amounts collected; and
- provide clear procedures for claiming treaty relief.

In early 2015, Chinese tax officials issued guidance, which stated that unless a treaty exemption applies, the government would collect capital gains tax on the sale of A shares occurring within the past five years. The guidance also clarified that the country would not charge interest or penalties on the amount owed.



### KEY MESSAGES

- Through a comment letter and meetings with European policymakers, ICI Global explained why the EBA's draft guidelines for remuneration under CRD IV were inappropriate and would put captured funds and their managers at a competitive disadvantage.
- ICI Global expressed support for ESMA's interpretation of proportionality in its consultation on proposed guidelines for sound remuneration policies under UCITS V. The interpretation would permit fund managers to waive certain remuneration requirements in some circumstances.
- Some European countries have unduly imposed a withholding tax on dividends paid to foreign funds. ICI Global met with European government officials, supported members' litigation efforts, and filed complaints with the European Commission. These efforts have so far helped members recover taxes from three countries.
- ICI Global responded forcefully to assertions by Indian tax auditors that non-Indian funds owed an 18.5 percent capital gains tax retroactively under the two-decades-old MAT. The government ultimately announced that it would advance legislation clarifying that the tax did not apply to foreign funds.
- Thanks in part to ICI Global's efforts, China will not charge interest or penalties on the amounts it collects as part of its effort to levy a capital gains tax on the sale of A shares that occurred within the past five years.

# REGULATED FUNDS AND EMERGING MARKETS:

## NEW ICI GLOBAL RESEARCH OFFERS FRESH PERSPECTIVE

*Regulated fund holdings of emerging market stocks and bonds have grown significantly in the past decade. This growth is part of a broader trend of investors seeking greater exposure to emerging markets. From 2010 to 2014, emerging market economies received cumulative gross portfolio capital flows of US\$1.4 trillion. Of this, almost US\$200 billion came from regulated funds.*

Some observers have expressed concern that redemptions from funds during a market downturn could hurt emerging market economies. 'Regulated Funds, Emerging Markets, and Financial Stability,' published by ICI Global in April 2015, addresses these concerns by examining the true role of regulated funds in capital flows and investment trends in emerging markets.

The study's author, ICI Senior Economist Chris Plantier, cites three main reasons that funds are unlikely to pose systemic risk in emerging economies:

- **Small relative size.** Market participants other than regulated funds—most notably domestic investors—dominate the equity and fixed-income markets in emerging markets. Regulated fund assets make up only a small share of total investment, holding just 4.3 percent of outstanding debt and 8.5 percent of stock market capitalisation in 2013.
- **Stable investor base.** Regulated funds provide a stable investor base for emerging markets, accounting for less than 15 percent of the volatility in foreign portfolio capital flows to emerging markets from 2005 to 2013.
- **Diversified holdings.** Regulated fund holdings are diversified across a wide number of emerging economies, limiting the effects of their portfolio transactions on any particular country.

These three reasons address many of regulators' concerns, but they do not address another key issue: whether regulated funds may amplify changes in emerging market securities prices.

Some studies have theorised that they do. ICI Global's report, however, presents new evidence that suggests otherwise, based on weekly and monthly data, rather than the monthly and quarterly data that other studies have used. Plantier finds that monthly returns on emerging market securities are explained by factors other than funds' net purchases of emerging market stocks and bonds—most significantly by capital flows from non-fund foreign investors. The analysis also demonstrates that funds' net purchases of emerging market securities respond to returns on emerging market securities, but do not drive the future returns of such securities.

The conclusion? Regulators around the world that are considering issues surrounding financial stability and systemic risk should examine the flow of capital from *all* foreign investors—not exclusively from regulated funds—as part of the wide range of factors affecting emerging market economies.



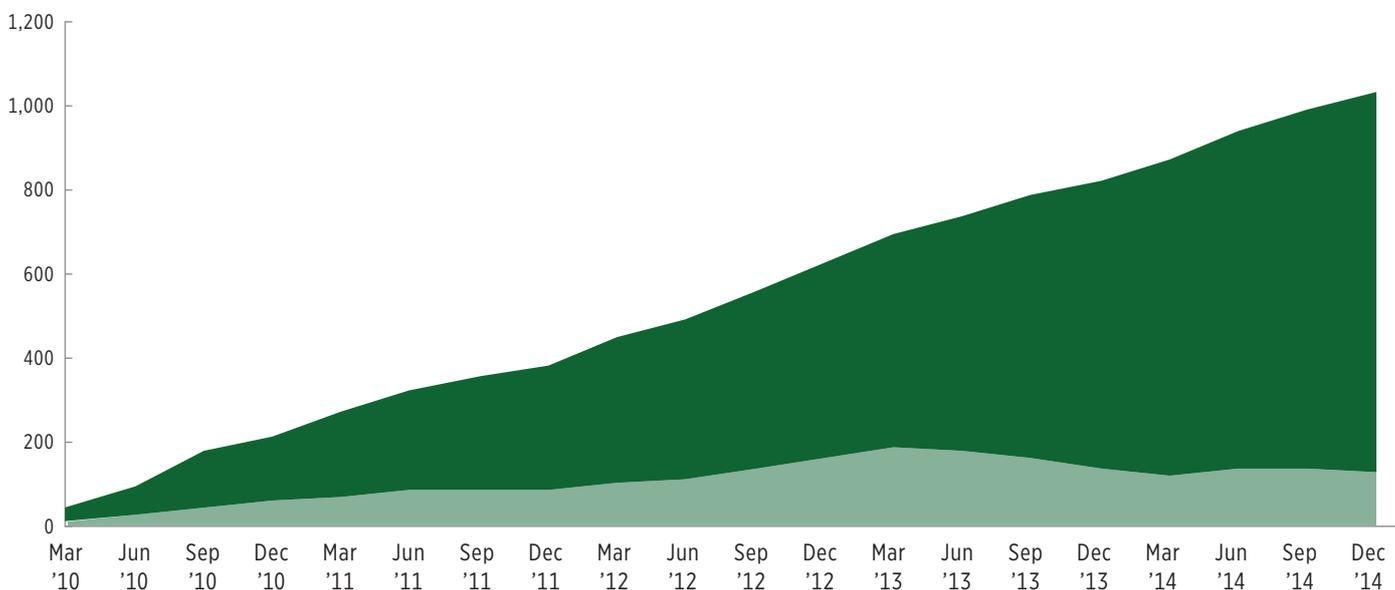
Watch ICI Senior Economist Chris Plantier discuss more insights from 'Regulated Funds, Emerging Markets, and Financial Stability.'

[www.iciglobal.org/plantier](http://www.iciglobal.org/plantier)

## Cumulative net purchases of emerging market securities are a small share of total foreign investor portfolio capital flows to emerging markets

Billions of US dollars; quarterly, March 2010–December 2014

- Cumulative foreign investor portfolio capital flows to EM bonds
- Cumulative net fund purchases of EM bonds



Sources: Institute of International Finance and EPFR Global

### Setting the record straight: ICI Global addresses errors in IMF report

Sound asset management regulation depends upon a deep understanding of the regulated fund industry. Without this understanding, policymakers run the risk of drawing faulty conclusions about funds and investor behaviour, which could result in inappropriate policies that can harm markets and their participants.

Thus, when the International Monetary Fund (IMF) published its *2015 Global Financial Stability Report*—which included a chapter on ‘The Asset Management Industry and Financial Stability’—ICI Global was concerned by the errors, inconsistencies, and misinterpretations that marred the chapter and led the IMF to mistakenly conclude, among other things, that mutual funds can pose risks to financial stability.

In a series for the *ICI Viewpoints* blog, Plantier and ICI Senior Director for Industry and Financial Analysis Sean Collins used empirical evidence and thorough analysis to dispute the IMF’s conclusions and set the record straight on a variety of issues in the report, correcting the IMF on such topics as:

- the size and growth of emerging market bond holdings by regulated funds,
- the IMF’s misinterpretation of redemption fee trends,
- the myth that fund investors ‘herd,’ and
- the IMF’s confusion about the makeup of institutional share classes.

Though the IMF subsequently revised some of the data in its report, concerns remain that its inaccurate assumptions and conclusions could inappropriately influence regulators, especially given that the IMF did not adjust the report’s analysis or policy recommendations. To read the blog postings, please visit [www.ici.org/imf](http://www.ici.org/imf).

# ENSURING THE FAIR AND ORDERLY OPERATION

## OF MARKETS WORLDWIDE

*Markets for securities and derivatives are rapidly evolving—as are policymakers' efforts to regulate them. Regulated funds play a critical role in these markets, and ICI Global engaged on a host of issues worldwide to ensure that global financial markets remain highly competitive and efficient, for the benefit of investors.*

### Addressing regulators' concerns about dealing commissions

When the European Securities and Markets Authority (ESMA) published its final technical advice to the European Commission for implementing the reform of the Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR), one of the most important issues concerned the use of dealing commissions to pay for research. ESMA proposed measures that would require investment firms to purchase research either themselves or through a separate account funded by the client. ICI Global explained why the proposal is unworkable for funds and has helped slow the adoption of final measures that would be detrimental to global fund managers.

### Encouraging appropriate and coordinated derivatives regulation

Regulated funds are important players in derivatives markets and have a strong interest in ensuring that these markets are highly competitive and transparent. Given that many derivatives transactions are conducted on a cross-border basis, funds benefit if derivatives rules are harmonised to avoid duplicative or conflicting regulations. Accordingly, ICI Global engaged on many important policy initiatives in the Asia-Pacific region, European Union, and the United States. These issues have yet to be resolved, and ICI Global continues to engage on them to ensure the best outcome for funds and their investors.

**Asia-Pacific region.** The Monetary Authority of Singapore (MAS) proposed margin requirements for non-centrally cleared over-the-counter (OTC) derivatives. The proposal would require MAS-regulated entities to collect margin only from their foreign counterparties, rather than requiring them to exchange margin on a bilateral basis. This would mean, for example, that US regulated funds would be required to post margin to MAS regulated entities, but MAS regulated entities would not be required to post margin to US regulated funds.

The MAS's proposed approach relies upon the assumption that non-MAS regulated counterparties would be subject to margin requirements in other jurisdictions. In a comment letter, ICI Global argued against taking this approach, given that in practice, it could deviate from the international standards for margin requirements for uncleared derivatives. ICI Global also explained that this approach would minimise the benefits of two-way margining as a method of reducing both counterparty risk and the buildup of systemic risk.

**European Union.** ESMA issued a consultation on transparency and trading obligations for derivatives under MiFIR. Although ICI Global supported ESMA's goal of providing greater oversight of the derivatives market, it warned against adopting a one-size-fits-all approach. ICI Global also encouraged ESMA to adopt a flexible regulatory regime that could adapt to changing market conditions and to coordinate its efforts with international regulators.

The European Commission published a consultation on a review of the implementation to date of the European Market Infrastructure Regulation (EMIR). ICI Global made a number of recommendations, including urging the Commission to adopt a single-sided reporting regime in which the counterparty with the greater capacity to report a transaction—such as a dealer, rather than a regulated fund—would be required to report it.

**United States.** ICI Global urged the US Commodity Futures Trading Commission (CFTC) to coordinate with other regulators on the implementation of derivatives rules. ICI Global expressed concerns about certain aspects of the CFTC's proposed rules for margin requirements for non-centrally cleared OTC derivatives, including proposed limitations on the use of substituted compliance. Substituted compliance enables non-US persons to comply with their home regulations rather than the CFTC regulations, if it finds the foreign rules comparable to its own.

Under the CFTC's proposed rules, in certain circumstances, non-US persons might not be able to rely upon substituted compliance for particular transactions. ICI Global argued that this approach could significantly undermine existing international efforts to harmonise margin rules. In its comments, ICI Global also requested that the CFTC include an exception from the definition of 'US person' for foreign publicly offered funds, to ensure that they are not inappropriately subjected to US regulations.

### Examining the effect of regulatory developments on the buy-side

The globalisation of the fund industry and the cross-border effects of trading and market structure regulations took centre stage at ICI Global's fourth Trading and Market Structure Conference on 8 December 2015. Regulators, fund managers, broker-dealers, and other market participants came together during this one-day conference to discuss how policy and market developments are affecting the buy-side. More than 100 senior leaders from all sectors of the financial industry convened in London to hear from experts, including:

- Susanne Bergstraesser, chair of the Standing Committee on Secondary Markets for the International Organization of Securities Commissions (IOSCO) and a senior director at BaFIN, who spoke about IOSCO's work on issues surrounding corporate bond market liquidity, specifically its market survey and upcoming report on the findings from that survey;
- Rodrigo Buenaventura, head of ESMA's markets division, who discussed ESMA's role in helping regulators and market participants implement new rules under both EMIR and MiFID II; and
- David Lawton, director of the markets policy and international division for the UK Financial Conduct Authority (FCA), who addressed the use of dealing commissions under MiFID II and the FCA's engagement on the Capital Markets Union (CMU) initiative.

The conference also examined challenges in global equity markets, changes in fixed-income markets, and cross-border derivatives trading.



### KEY MESSAGES

- ESMA published its final technical advice for implementing MiFID II and MiFIR, and one of the most important issues concerned the use of dealing commissions to pay for research. ICI Global explained to European officials how ESMA's proposal would disproportionately harm global fund managers and their investors, small- and medium-sized issuers, and niche research providers.
- Asia-Pacific, EU, and US regulators are proposing and implementing reforms to improve the oversight of derivatives markets. ICI Global engaged on many initiatives to ensure that the reforms achieve their intended objectives without resulting in potential cross-border effects that could inadvertently harm funds or their investors.
- During ICI Global's fourth Trading and Market Structure conference, delegates examined issues affecting the buy-side, including challenges in global equity markets, changes to fixed-income markets, and cross-border derivatives trading. Attendees also heard from several keynote speakers who discussed, among other issues, IOSCO's work on corporate bond market liquidity, ESMA's role in helping regulators and market participants implement new rules under both EMIR and MiFID II, and the FCA's engagement on the CMU initiative.

# HELPING FUNDS ADDRESS CYBERSECURITY ISSUES AND

## OPERATIONAL CHALLENGES

*Regulators around the world are implementing more rules with cross-border effects and an increasing number of jurisdictions are opening their markets. At the same time, cybersecurity threats are growing in number and sophistication every day. These challenges make it increasingly complex for funds to conduct business and protect sensitive information. Throughout the year, ICI Global offered guidance to members as they worked to meet the operational and cybersecurity challenges facing them and investors worldwide.*

### Supporting fund operations around the world

One of ICI Global's priorities is helping funds address the business, policy, and compliance issues that affect the services they provide to investors. Through the International Operations Advisory Committee (IOAC), ICI Global and ICI work on numerous operational challenges facing funds. As part of this work last year, the IOAC designed the 'Know Your Distributor Survey,' a tool to help fund managers gain more detailed and standardised information about distributors during the due diligence process. Industry stakeholders are reviewing and offering feedback on the survey; once final, it will enable funds to gather better data about distributors and their business practices. The survey covers a wide range of subjects, including questions about the type of counterterrorism financing and anti-money laundering policies that a distributor has in place, and whether it has policies and procedures in place to comply with such regulations as the US Foreign Account Tax Compliance Act and the EU reform of the Markets in Financial Instruments Directive.

ICI Global also helped funds navigate the challenges of investing in markets that are opening to foreign investors, such as Saudi Arabia. ICI Global welcomed the opening of the Saudi Arabian market, but the final rules for qualified foreign investor (QFI) investments and different application forms posed challenges

for regulated funds and their managers, such as the onerous documentation requirements that they had to meet to open a QFI account or QFI client accounts. In addition, certain QFI rules were ambiguous.

To help members navigate the burdensome documentation requirements and to better understand some of the QFI rules, ICI Global and ICI held member and committee calls, and coordinated with the main custodian in Saudi Arabia's market. ICI Global and ICI will continue to monitor developments in this market and will work with members to address outstanding issues as appropriate.

### Information security: keeping up with a rapidly evolving threat

Cyberthreats have long been one of the fund industry's top priorities. Information security, however, has taken on even greater importance as these threats have grown rapidly and proliferated across national borders. ICI Global worked with members and the International Organization of Securities Commissions (IOSCO) to help funds better understand information security issues and to give strong support to policy initiatives designed to enhance cybersecurity.



*Kurt Pipal, assistant legal attaché for the Federal Bureau of Investigation (FBI) in London, speaks at ICI Global's Cybersecurity Forum about key cybersecurity concerns and issues facing funds.*

Learning about the latest threats to information security and the best ways to mitigate them is key to protecting investors' personal data and market-sensitive information. To that end, ICI Global created the Global Information Security Officer Committee to facilitate an exchange of knowledge about cybersecurity issues and about effective practices to guard against operational and reputational risks.

ICI Global also organised its first Cybersecurity Forum, which drew government officials, cybersecurity professionals, and fund industry representatives from around the world. Leading up to the event, ICI Global hosted a dinner featuring Natalie Black, then-director of the UK office of cybersecurity and information assurance cabinet office (and currently deputy director of the prime minister's policy unit). Black spoke about the United Kingdom's national strategy on cybersecurity and the country's ongoing cooperation with the US government on cybersecurity issues.

The next day during the forum, attendees heard from two other keynote speakers:

- Kurt Pipal, assistant legal attaché for the Federal Bureau of Investigation (FBI) in London, who spoke about the most pressing cyberthreats facing the world today; and

- Phil Huggins, vice president for security science at Stroz Friedberg, who discussed general threat assessments and cyber resilience strategies.

Participants also explored a variety of other issues, ranging from the fundamentals of a robust information security programme to the key cyber concerns for senior managers and board directors.

In addition to helping members share knowledge and engage with stakeholders about information security issues, ICI Global also worked with IOSCO on initiatives designed to enhance cybersecurity within the asset management sector. For example, ICI Global led the development of a comprehensive questionnaire to help fund managers assess their approach and resilience to information security risks. This survey, which will be conducted annually, will enable ICI Global, fund managers worldwide, and IOSCO to better understand how the industry is adapting and responding to cybersecurity risks and challenges.



Watch Peter Salmon, ICI senior director of operations and technology, discuss the key themes and takeaways from ICI Global's Cybersecurity Forum.

[www.iciglobal.org/cyberforum](http://www.iciglobal.org/cyberforum)



## KEY MESSAGES

- To help fund managers have more detailed and standardised information about distributors during the due diligence process, ICI and ICI Global's International Operations Advisory Committee created the 'Know Your Distributor' survey. Once final, the survey will enable funds to gather more comprehensive data about distributors and their business practices.
- Saudi Arabia published rules for QFI investments and subsequently opened up its stock market to direct trading by foreign investors. To help funds better understand the rules and navigate some of the onerous documentation requirements, ICI and ICI Global held member and committee calls and coordinated with the main custodian in Saudi Arabia's market.
- Through its new Global Information Security Officer Committee and first Cybersecurity Forum, ICI Global helped funds better understand issues surrounding information security and the effective practices they can use to guard against operational and reputational risks.
- ICI Global supported policy initiatives designed to enhance cybersecurity by working with IOSCO to develop an annual questionnaire. The survey will not only help fund managers assess their approach and resilience to information security risks, but also enable ICI Global, fund managers worldwide, and IOSCO to better understand how the industry is adapting and responding to cybersecurity challenges.

# DEEPENING ENGAGEMENT WITH MEMBERS

## AND THE MEDIA

*Understanding and responding to the needs of funds and their managers is at the heart of ICI Global's work. Whether it's helping members better understand policy developments or offering them guidance about operating in different jurisdictions, ICI Global brings members together to enable them to serve investors more efficiently and effectively worldwide. At the same time, it consistently engages with regulators and the media to share funds' perspective on the policies and practices that affect them and their investors.*

### Responding to funds' needs through member events

Keeping members informed about global trends and regional policy developments is key to helping funds and their managers take advantage of opportunities in markets worldwide. To that end, ICI Global hosted seminars and webinars throughout the year on a number of topics, many of which were especially relevant to Asia-Pacific members. These events featured industry experts and explored such issues as:

- Global trends in retirement savings and opportunities for regulated funds
- Australia's mutual fund industry and regulatory climate
- Hong Kong's evolving asset management sector and the trends in renminbi business development
- The US mutual fund market and distribution model

### Strengthening and broadening membership in the Asia-Pacific region

Asset management sectors throughout the Asia-Pacific region are rapidly evolving, with different markets at different stages of development. To help Asia-Pacific members better understand how both regional initiatives and global trends could affect them, ICI Global—through its Hong Kong office—launched a series of networking events that enabled members to connect with and learn from each other. Each meeting was hosted by a different member, featured notable industry experts, and covered a specific issue important to Asia-Pacific funds.

For example, one of the events focused on business opportunities outside of the Asia-Pacific region, specifically in Europe. A panel of guest speakers from Hong Kong and the United Kingdom discussed the benefits and challenges of expanding into the region. Other events covered such topics as:

- Global trends in exchange-traded funds
- The investment outlook for 2015 and 2016
- China's government debt and budget laws
- Chinese corporate governance

These member engagement efforts, coupled with ICI Global's policy work in the region (see page 5), have yielded tremendous results. In addition to ICI Global's existing membership in China, Hong Kong, and Japan, this past year saw the addition of a new member from Japan and its first members from South Korea and Taiwan. These three new members bring the percentage of ICI Global members headquartered in the Asia-Pacific region to 30 percent. ICI Global continues to actively work on expanding its membership to other jurisdictions, such as Australia, where it has engaged on policy initiatives important to funds and their investors.

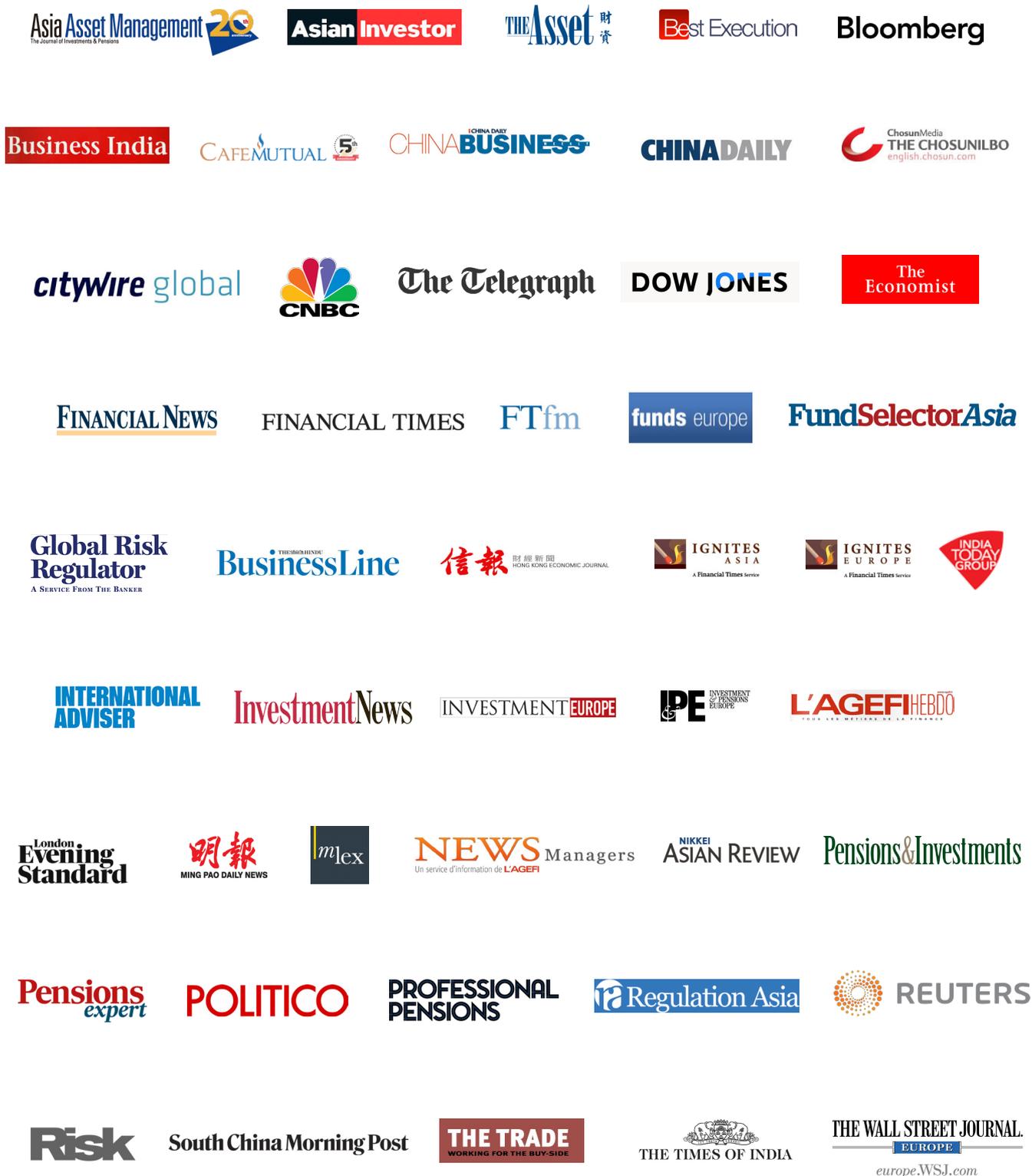


*Qiumei Yang, CEO of ICI Global, Asia Pacific, gives opening remarks at a seminar for Taiwanese fund managers on the US mutual fund distribution model.*

## Promoting the importance of regulated funds

Debates surrounding the use and regulation of funds spill out into the pages of newspapers and magazines worldwide. During 2015, ICI Global actively engaged with media around the world to help influence and shape the public dialogue about asset management

on several levels—around specific regulatory developments, around the role of funds in financial markets and retirement systems, and around the need for well-regulated investment products that investors can use. These communications efforts on issues of importance to global funds achieved a substantial and growing profile in media outlets worldwide, including:



# APPENDIX A

## ORGANISATION

The international arm of the Investment Company Institute, ICI Global serves a fund membership that includes regulated funds publicly offered to investors in jurisdictions worldwide, with combined assets of US\$19.3 trillion. ICI Global seeks to advance the common interests and promote public understanding of global investment funds, their managers, and investors. ICI Global has offices in London, Hong Kong, and Washington, DC.

The ICI Board of Governors established ICI Global and created the ICI Global Steering Committee in October 2011. The Steering Committee is composed of senior executives from leading global asset managers (see Appendix B on page 21) and develops ICI Global's policy agenda and positions. In addition, a number of committees, task forces, and chapters composed of professionals from ICI Global member firms (see Appendix D on page 23) inform ICI Global's policy and membership work. ICI Global's managing director oversees the ICI Global staff and reports to ICI's president and CEO.

ICI Global's committees, task forces, and chapters are geographically diverse and include fund groups sponsored by a variety of financial institutions. This broad-based representation helps ensure that ICI Global's policy deliberations consider the interests of the fund industry and investment company shareholders.

ICI Global leverages the intellectual capital of ICI. Based in Washington, DC, ICI brings the broad expertise of legal, regulatory, research, public communication, and fund industry operation experts to help ICI Global execute its policy agenda. ICI is the national association of US mutual funds, exchange-traded funds, and other registered investment companies. The Institute's US member funds represent 98 percent of the US mutual fund market, serve more than 90 million investors, and manage total assets of US\$17.9 trillion as of 31 December 2015.

It is ICI Global's policy to comply with all applicable competition laws and regulations, including antitrust laws, in such a manner as to avoid even the appearance of improper activity.

# APPENDIX B

## STEERING COMMITTEE

**Campbell Fleming (Chairman)**

CEO, EMEA and Global  
Chief Operating Officer  
Columbia Threadneedle Investments

**Mark Armour**

Chief Executive Officer  
Invesco Perpetual

**Andrew Arnott**

President and CEO, John Hancock Funds  
John Hancock Financial Services, Inc.

**Richard Bisson**

President  
Nomura Asset Management UK Limited

**David J. Brennan**

Chairman and CEO  
Baring Asset Management Limited

**Clive Brown**

Chief Executive Officer, International  
RBC Global Asset Management

**Eddie Chang**

Chief Executive Officer  
China International Fund Management  
Co., Ltd.

**Peng Wah Choy**

Chief Executive Officer  
Harvest Global Investments Limited

**Ian Dawkins**

Senior Vice President and  
Chief Financial Officer, Europe  
AllianceBernstein, Ltd.

**Chen Ding**

Chief Executive Officer  
CSOP Asset Management Limited

**Jiunn-Shyony Duh**

Chairman  
Fuh Hwa Securities Investment Trust  
Co. Ltd.

**Gregory P. Dulski**

Senior Corporate Counsel  
Federated Investors, Inc.

**Jing Feng**

Senior Advisor  
Bosera Asset Management Co., Ltd.

**Mark Flaherty**

Chief Investment Officer, UK  
Fidelity Management &  
Research Company, UK

**Hamish Forsyth**

President, Europe  
Capital Group Companies Global

**Toby E. Goold**

Managing Director  
Dodge & Cox Worldwide Investments Ltd.

**Massimo Greco**

Head of European Fund Business  
J.P. Morgan Asset Management  
(UK) Limited

**James S. Hamman**

Managing Director,  
Corporate Development/Legal  
Artisan Partners Limited Partnership

**Meekal Hashmi**

Senior Global Counsel  
Affiliated Managers Group Limited

**Robert Higginbotham**

President, Global Investment Services  
T. Rowe Price International Ltd.

**Arnie Hochman**

Vice President, Legal  
TD Bank Financial Group

**Gaohui Huang**

Chief Executive Officer  
E Fund Management (HK) Co. Ltd.

**James D. Hughes**

Senior Counsel  
Waddell & Reed, Inc.

**Terry Johnson**

Head, International Sales  
Legg Mason Investments (Europe)  
Limited

**Zhang Lixin**

Chief Executive Officer  
Fullgoal Asset Management (HK) Ltd.

**Ross Long**

Chief Legal Officer  
Nikko Asset Management Co., Ltd.

**Brenda Lyons**

Executive Vice President  
State Street Bank and Trust Company

**John McCarthy**

Executive Vice President,  
Secretary, and General Counsel  
Nuveen Investments

**Lina Medeiros**

President of Distribution for UCITS  
MFS International (UK) Limited

**Bryan Melville**

Managing Director  
Coronation International Limited

**James M. Norris**

Managing Director,  
International Operations  
Vanguard Asset Management Limited

**Andy Olding**

Head of EMEA Fund Administration  
Neuberger Berman Europe Limited

**Stuart Parker**

President  
Prudential Investments

**Nicholas Phillips**

Head of EMEA Third-Party Distribution  
Goldman Sachs Asset Management  
International

**Jed Plafker**

Executive Managing Director  
Franklin Templeton Investments

**Niall Quinn**

Managing Director  
Eaton Vance Management (International)  
Limited

**Karla M. Rabusch**

President  
Wells Fargo Funds Management, LLC

**JungHo Rhee**

Chief Executive Officer  
Mirae Asset Global Investments (HK)  
Limited

**Tom Rice**

Executive Vice President and European  
Legal Counsel  
PIMCO Europe Ltd.

**Jonathan Schuman**

Executive Vice President, Head of Global  
Business Development  
Matthews International Capital  
Management, LLC

**Roger Thompson**

Chief Financial Officer  
Henderson Group plc

**Lodewijk van Setten**

Managing Director  
Morgan Stanley Investment Management  
Limited

**Liz Ward**

Chief Risk Officer,  
Global Asset Management and  
Group Managing Director  
UBS Global Asset Management (UK)

**Hidetoshi Yanagihara**

Chief Executive Officer  
DIAM International Ltd.

**Shelley Yang**

Managing Director  
China Universal Asset Management (HK)  
Limited

**Ben Y. B. Zhang**

Managing Director  
Hai Tong Asset Management (HK) Limited

**Xiaoling Zhang**

Chief Executive Officer  
China Asset Management (Hong Kong)  
Limited

# APPENDIX C

## LEADERSHIP AND STAFF

*(As of 31 December 2015)*

### Leadership

#### **Dan Waters**

Managing Director

#### **Qiumei Yang**

CEO, Asia-Pacific

#### **Patrice Bergé-Vincent**

Managing Director, Europe

#### **Susan M. Olson**

Chief Counsel

### Staff

#### **HONG KONG**

##### **Irene Leung**

Regional Lead, Member Relations and Research, Asia-Pacific

#### **LONDON**

##### **Giles S. Swan**

Director, Global Funds Policy

#### **WASHINGTON, DC**

##### **Jennifer S. Choi**

Associate General Counsel, Securities Regulation

##### **Anna A. Driggs**

Associate Chief Counsel, Retirement Policy

##### **Keith D. Lawson**

Deputy General Counsel, Tax Law

##### **Eva M. Mykolenko**

Associate Chief Counsel, Securities Regulation

# APPENDIX D

## COMMITTEES AND TASK FORCES

### Committees

ICI Global Asia-Pacific Chapter

ICI Global Exchange-Traded Funds Committee

ICI Global Information Security Officer Committee

ICI Global Public Communications Committee

ICI Global Regulated Funds Committee

ICI Global Retirement Savings Committee

ICI Global Tax Committee

ICI Global Trading and Markets Committee

International Operations Advisory Committee

### Task forces

ICI Global Asia-Pacific Fund Passports Task Force

ICI Global Capital Markets Union Task Force

ICI Global Mutual Recognition Task Force

ICI Global RQFII Task Force

ICI Global Shadow Banking Task Force

# APPENDIX E

## MEMBERS

*(As of 31 December 2015)*

Affiliated Managers Group, Inc.

AllianceBernstein, Ltd.

Artisan Partners Global Funds, plc

Baring Asset Management Limited

Bosera Asset Management Co., Ltd.

Capital Group Companies Global

China Asset Management (Hong Kong) Limited

China International Fund Management Co., Ltd.

China Universal Asset Management Co., Ltd.

Columbia Threadneedle Investments

Coronation Fund Managers Limited

CSOP Asset Management Limited

DIAM Co., Ltd.

Dodge & Cox Worldwide Investments Ltd.

Eaton Vance International (Ireland) Funds plc

E Fund Management (HK) Co. Ltd.

Federated Investors, Inc.

FMR Investment Management (UK) Limited

Franklin Templeton Investments

Fuh Hwa Securities Investment Trust Co. Ltd.

Fullgoal Asset Management (HK) Ltd.

Goldman Sachs Asset Management International

Hai Tong Asset Management (HK) Limited

Harvest Global Investments Limited

Henderson Global plc

Invesco Perpetual

Ivy Investment Management Company

John Hancock Financial Services, Inc.

J.P. Morgan Asset Management (UK) Limited

Legg Mason Investments (Europe) Limited

Matthews International Capital Management, LLC

MFS International (UK) Limited

Mirae Asset Global Investments (HK) Limited

Morgan Stanley Investment Management Limited

Neuberger Berman Management LLC

Nikko Asset Management Co., Ltd.

Nomura Asset Management Co., Ltd.

Nuveen Investments

PIMCO Europe Ltd.

Prudential Investments

RBC Global Asset Management

SSgA Funds Management, Inc.

TD Asset Management, Inc.

T. Rowe Price International Ltd.

UBS Global Asset Management (UK)

Vanguard Asset Management Limited

Wells Fargo Funds Management, LLC

# APPENDIX F

## KEY APPEARANCES AND EVENTS

### ICI Global speeches and testimonies

9 March 2015	<b>IBA Annual International Conference on Private Investment Funds</b> London
24 March 2015	<b>FT Regulation in Asset Management Summit</b> London
15 April 2015	<b>Fund Forum Asia</b> Hong Kong
1 May 2015	<b>2015 Pension Research Council Symposium</b> Philadelphia
20 May 2015	<b>ANBIMA Eighth Annual Investment Funds Congress</b> Brazil
21 May 2015	<b>Euromoney 2015 UCITS Conference</b> London
10 June 2015	<b>DUFAS Investment Management Forum</b> The Hague
16 June 2015	<b>GFD 2015 UCITS and AIFMD Luxembourg Conference</b> Luxembourg
23 July 2015	<b>APEC Workshop on Infrastructure Financing and Capital Market Development</b> Philippines
29 September 2015	<b>FT Investment Management Summit Europe</b> London
30 September 2015	<b>GFD UCITS and AIFMD London Conference</b> London
30 September 2015	<b>Irish Transfer Agency Summit</b> Dublin

### ICI Global events

23 April 2015	<b>Global Retirement Savings Summit</b> Tokyo
24 June 2015	<b>Global Retirement Savings Conference*</b> Paris
14 July 2015	<b>ICI Global Cybersecurity Forum</b> London
8 December 2015	<b>Global Trading and Market Structure Conference</b> London

\* Cosponsored with the Organisation for Economic Co-operation and Development and the International Organisation of Pensions Supervisors

# ICI GLOBAL ACTION ON SELECT POLICY DEVELOPMENTS,

## CALENDAR YEAR 2015

### Cross-border regulation

**Asia Region Funds Passport (ARFP):** The ARFP Working Group published a second consultation on the ARFP, outlining revisions based on public comments to its initial consultation in 2014.

*ICI Global submitted extensive comments, urging the working group to address tax issues and offering feedback on other areas, including delegation, oversight, data protection, and permitted investment activities. The expectation is that funds will be able to use this cross-border initiative by mid-2017.*

**Chinese capital gains tax:** See page 11.

**EU reclaims:** Some European countries have unduly imposed a withholding tax on dividends paid to foreign funds. ICI Global members have challenged this practice, and some European courts have declared it unlawful.

*ICI Global met with European government officials, supported members' litigation efforts, and filed complaints with the European Commission. These efforts have so far helped members recover taxes from three countries.*

**EU remuneration guidelines:** EU regulators issued proposed guidelines on remuneration policies under the fourth iteration of the Capital Requirements Directive (CRD IV) and the fifth iteration of the Undertakings for Collective Investment in Transferable Securities Directive (UCITS V). Among other issues, the proposals on proportionality raised significant concerns for fund managers.

*ICI Global argued strongly against the interpretation of proportionality in its response to the CRD IV consultation, and expressed its concerns to various EU institutions and member state regulators. The European Securities and Markets Authority (ESMA) consultation on UCITS V proposed a more flexible interpretation of proportionality. ICI Global submitted a response supporting ESMA's position and reiterating the unique role and regulation of fund managers.*

**India minimum alternate tax (MAT):** In early 2015, Indian tax auditors asserted that non-Indian funds owed an 18.5 percent capital gains tax retroactively under the two-decades-old MAT.

*ICI Global responded forcefully by making five submissions to the Indian government, leading an industry coalition against the tax, and joining a lawsuit in the Indian Supreme Court. The Indian government formed a commission that ultimately agreed with ICI Global that the tax was never meant to apply to foreign funds. The government subsequently announced that it will advance legislation to clarify this point.*

**The Mainland–Hong Kong Mutual Recognition of Funds:** See page 5.

## Operations

**Fund operations and Saudi Arabia:** Saudi Arabia published final rules for qualified foreign investor (QFI) investments and opened up its stock market to direct trading by foreign investors. Though welcome, the QFI rules and different application forms posed challenges for regulated funds and their managers.

*To help members navigate the burdensome application requirements and to better understand some of the QFI rules, ICI and ICI Global held member and committee calls, and coordinated with the main custodian in Saudi Arabia's market.*

## The role of funds in financing the real economy

**Capital Markets Union (CMU) initiative:** The European Commission launched the CMU initiative to diversify and deepen funding sources by integrating the region's capital markets. The Commission published a Green Paper on the CMU and subsequently adopted an action plan.

*In its comments on the Green Paper, ICI Global supported the objectives of the CMU and urged the Commission to prioritise a small number of high-impact initiatives that would promote deeper and more liquid markets, such as strengthening the cross-border distribution of funds, developing the pan-EU private placement market, and developing alternative ways to finance municipal infrastructure projects.*

**Financial stability:** The Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) issued a second consultation considering how to evaluate investment funds and asset managers for possible designation as global systemically important financial institutions (G-SIFIs).

*ICI Global and ICI mounted a vigorous campaign—leveraging ICI's strengths in law, research, industry operations, and communications—to explain why regulated funds and their managers should not be subject to G-SIFI designation. Through comment letters, meetings with regulators around the world, and high-profile speeches in the United States, Europe, Asia-Pacific region, and South America, ICI Global argued against designation and explained why a sector-wide review of activities and products was the best approach to addressing any outsized risks within the asset management industry. IOSCO subsequently called for a full review of asset management products and activities, and the FSB announced that it would set aside its G-SIFI work to undertake such a review.*

## The role of funds in retirement and long-term savings

**Pan-European Personal Pension (PEPP) product:** The European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are examining the creation of a voluntary PEPP product to help EU citizens build more private pension savings. EIOPA published a consultation analysing how to introduce a PEPP product, as well as a survey on the attractiveness of such a product.

*ICI Global worked with members to respond to both the consultation and the survey. In its comment letters, ICI Global highlighted the product's potential benefits, made suggestions about its design, and emphasised the need for a workable tax approach on a pan-European level.*

## Trading and market structure

**Derivatives (margin requirements):** The Monetary Authority of Singapore (MAS) proposed margin requirements for non-centrally cleared over-the-counter (OTC) derivatives. The proposal requires MAS-regulated entities to collect margin only from their foreign counterparties, rather than requiring them to exchange margin on a bilateral basis.

*The MAS's proposed approach relies upon on the assumption that non-MAS regulated counterparties would be subject to margin requirements in other jurisdictions. In a comment letter, ICI Global argued against taking this approach, given that in practice, it could deviate from the international standards for margin requirements for uncleared derivatives. ICI Global also explained that this approach would minimise the benefits of two-way margining as a method of reducing both counterparty risk and the buildup of systemic risk.*

**European Market Infrastructure Regulation (EMIR):** See page 14.

**Markets in Financial Instruments Regulation (MiFIR):** ESMA issued a consultation on transparency and trading obligations for derivatives under MiFIR.

*In its response, ICI Global supported ESMA's goal of providing greater oversight of the derivatives market, but warned against adopting a one-size-fits-all approach. ICI Global also encouraged ESMA to adopt a flexible regulatory regime that could adapt to changing market conditions, and to coordinate its efforts with international regulators.*

**Use of dealing commissions for investment research:** The European Commission continues to work on finalising the delegated acts for the reform of the Markets in Financial Instruments Directive (MiFID II), based on proposed advice from ESMA. The proposed measures would require investment firms to purchase research either themselves or through a separate account funded by the client.

*In comment letters and in meetings with European policymakers, ICI Global explained why ESMA's proposal would be particularly damaging for funds and their investors. These efforts helped slow the adoption of final measures that would be detrimental to global fund managers. ICI Global is increasingly optimistic that the European Commission may adopt a solution that avoids the disruption of global trading and research platforms.*





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