

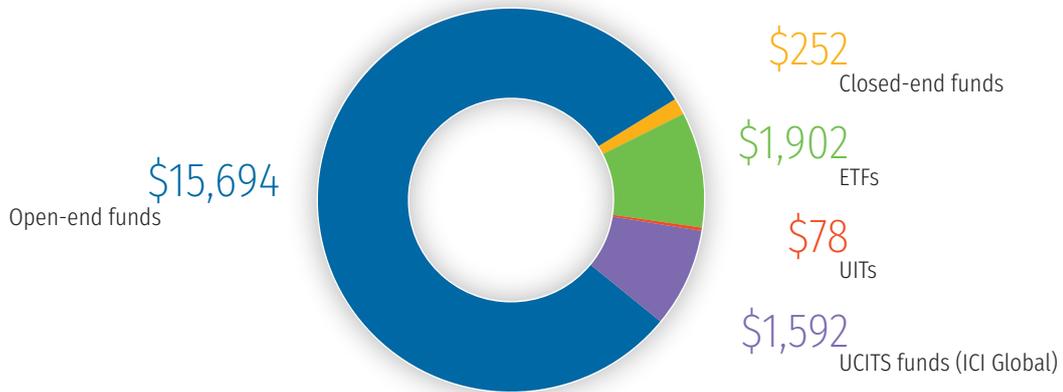
2016 ANNUAL REPORT TO MEMBERS



ICI members...

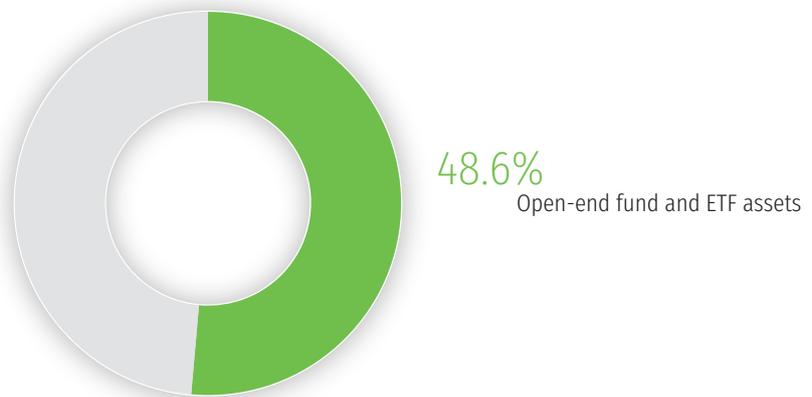
Manage more than US\$19.5 trillion in assets*

Investment company assets, billions of dollars



And account for 48.6 percent of assets in mutual funds and ETFs worldwide

Percentage of assets



*Data for open-end funds, closed-end funds, exchange-traded funds (ETFs), and UCITS funds are as of June 2016. Data for unit investment trusts (UITs) are as of December 2015.



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A letter to members



PAUL SCHOTT STEVENS
President and CEO
ICI



DAN WATERS
Managing Director
ICI Global

In a 1983 article in the *Harvard Business Review*, the late professor Theodore Levitt coined the term *globalisation*, referring to sweeping changes in technology and human society giving rise to true “global markets” and a “new commercial reality.”

The pace of these changes in the 33 years since has been unrelenting, with globalisation having a profound impact on almost every business—including asset management. More funds investing in international markets, and more managers crossing borders to sell funds outside their home markets, mean that more savers and investors—in developed nations and in many emerging economies—look to funds as a key tool in meeting their financial goals.

Recent developments, such as the Brexit vote in the United Kingdom and the 2016 elections in the United States, may buck the long-term trend. But the forces that fuel the global perspective—certainly in asset management—are not likely to go away. Nor will the interest of regulators who are taking a global perspective as well.

In this complex environment, the global resources that ICI has developed are more important than ever—including expert staff in London, Hong Kong,

and Washington, DC, who quickly grasp regional and international policy developments, help funds assess how those policies could affect them, and advocate on their behalf early in the policymaking process. Filling this critical member need was precisely the objective of ICI’s Board of Governors when it launched ICI Global in 2011.

At the time, we foresaw the importance of significantly expanding our global activities. What we did not anticipate, however, was the rapid acceleration of global regulation that we have seen since 2011. For example, in just the past year, ICI has filed 111 comment letters—that is almost one letter every other working day—as we responded to a vast array of rulemakings and proposals from agencies, councils, boards, and bodies in the United States and around the globe.

The fund industry has always welcomed and thrived under a sound framework of regulation. Yet in the wake of the financial crisis, we have seen a regulatory focus on funds and asset management that is far more intense than ever before. To a large extent, this effort has been led by banking regulators who have little experience with capital markets, and little appreciation for the unique nature of funds and

their investors. In the name of promoting “financial stability” or applying “macroprudential” oversight, international regulatory bodies such as the Financial Stability Board (FSB) are seeking to reshape the direction of fund and asset management regulation at a national level, while national regulators are following and reacting to developments in other parts of the world.

This regulatory dynamic affects all funds, making ICI Global’s work of deep value to all the Institute’s members. For example, this past year, ICI Global engaged with the FSB, the International Organization of Securities Commissions (IOSCO), and national authorities in Europe and the Asia-Pacific region on the importance of taking a principles-based approach to regulation of liquidity management, and the implications of the liquidity risk management rule since adopted by the US Securities and Exchange Commission (SEC). At the same time, ICI Global helped the SEC better understand how some funds outside the United States use the technique of “swing pricing,” and why it would pose challenges for US funds (see page 6).

ICI Global’s presence in the United States, Europe, and the Asia-Pacific region means that ICI is able to respond to regional issues while anticipating and responding to international trends. Take, for example, pension issues. To help government officials, pension experts, and industry representatives from different countries share ideas and learn from one another as they examine possible reforms, ICI Global cohosted an international pensions conference in Beijing, which explored various issues, including the role that funds can play in helping savers build retirement resources (see page 10).

Having a large global footprint also makes it easier for ICI to help funds understand and navigate geopolitical events. After the United Kingdom voted to leave the European Union, ICI Global quickly mobilised a task force to help members assess and respond to the challenges presented by Brexit, and to make certain that the interests of millions of investors are voiced in the debate about the future relationship of the United Kingdom and the European Union.

Perhaps ICI Global’s greatest value, however, lies in its proven ability to tackle a range of diverse issues on behalf of all of ICI’s members and their investors worldwide. This past year, ICI Global’s Steering Committee—chaired with distinction by Campbell Fleming, global head of distribution for Aberdeen Asset Management—set an aggressive policy agenda, including:

- » responding to the FSB’s consultation on asset management activities and meeting with the FSB, IOSCO, and various national regulators to help them better understand how funds and their investors behave during periods of market stress (see page 4);
- » protecting fund investors from adverse tax consequences by leading industry opposition to a financial transaction tax, and helping members recover improperly withheld foreign taxes in Europe (see page 6);
- » advising the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) about what a workable framework for a pan-European personal pension should entail (see page 11);
- » engaging forcefully in the global debate on the regulation of derivatives, including championing sensible margin requirements for over-the-counter derivatives (see page 16); and
- » supporting the development of the Asia Region Funds Passport and the EU Capital Markets Union initiative, to deepen capital markets and provide more options to investors (see page 16).

With the industry’s interests bound ever more tightly to global trends, funds must engage with policymakers on a global stage. In its efforts to advance the interests of funds and their investors, ICI has long pursued an active international agenda. The Institute will continue to pursue its international work through ICI Global—and continue to effectively advocate on behalf of all of its members, worldwide, in the years to come. ◀



Conducting business and navigating regulations in the global marketplace

In today's global environment, the opportunities and challenges of operating a regulated fund have never been greater. Funds can grow and serve more investors than ever by conducting business and investing in more jurisdictions around the world, but they also face the challenge of navigating multiple regulatory regimes, at both the national and multinational levels. Throughout the year, the Institute actively engaged on a variety of issues—including responding to a review of asset management activities, championing sound tax policies, and advocating for appropriate remuneration frameworks—to ensure that regulators understand the nature of asset management, and that they craft or implement regulations accordingly.

The FSB focuses on asset management activities, but concerns remain

For the past several years, the Financial Stability Board (FSB) has been examining whether the asset management sector poses risks to global financial stability. In 2014 and 2015, the FSB published consultations considering how to evaluate investment funds and asset managers for possible designation as global systemically important financial institutions. ICI responded to both consultations, explaining that designation is unnecessary, inappropriate, and would have serious repercussions for funds, their investors, and capital markets worldwide. In our comments, we maintained that if regulators believe there are outsized risks within asset management, they should identify and address them through a market-wide, activities-based approach.

That message, which was also conveyed by other stakeholders, prompted the FSB to temporarily set aside its work on designation to undertake a review of asset management products and activities, and to publish a consultation based on that review. Yet

when the FSB shifted its focus, it did so with a caveat: Designation work would eventually recommence, the FSB said, to take care of any residual “entity-based sources of systemic risk” that it believes activity-based regulation cannot address.

In a comprehensive response to the consultation on asset management activities, ICI continued to express its belief that the FSB need not revisit its designation methodologies for regulated funds and their managers, and reiterated the point that it had previously made to the FSB: that neither regulated funds nor their managers pose risks to financial stability.

In addition, ICI commended the FSB for directing the International Organization of Securities Commissions (IOSCO) and national authorities to shape any reforms of activities and products recommended by the FSB. Yet the Institute's response expressed continuing concern with flaws in the FSB's process, explaining that the authority's asset management work still relies on theory and conjecture while discounting real-world data and experience. For example, the FSB based its policy recommendations for liquidity management on the premise that fund redemptions could threaten global financial stability—but offered no evidence to support that claim. In its letter, ICI cited its submissions to previous FSB consultations disputing the claim, and provided recent data from market episodes involving US, European, and Canadian funds to further counter the FSB's theory. The Institute also raised concerns about the FSB's recommendation to conduct system-wide stress testing involving funds, explaining that such tests could cause real harm if they are based on incorrect assumptions and if regulators base their actions on the results.

ICI responded to the FSB's policy recommendations in three other areas that the regulatory body cited as "structural vulnerabilities":

LEVERAGE. Disagreeing with the FSB's recommendations that IOSCO should develop a "simple and consistent" measure of leverage, ICI stated that, at a minimum, leverage metrics must instead be risk-based and consistent with the diversity seen across different fund types and jurisdictions.

OPERATIONAL RISK AND THE TRANSFER OF INVESTMENT MANDATES. ICI noted the potential benefit from encouraging all asset managers—not just the largest ones—to take reasonable, proportionate steps to plan in advance for business interruptions.

SECURITIES LENDING. The Institute said that it generally supports the targeted collection of securities lending data to better inform authorities' understanding of the practice.

In closing, ICI encouraged the FSB to adopt more exacting principles and standards to govern its work going forward, saying it would enhance the quality of its regulatory policymaking. ICI remains in close contact with both the FSB and IOSCO to ensure that any final recommendations concerning asset management are well-reasoned and reflect the realities of the regulated fund industry.

Engaging on liquidity management

The FSB's concerns about funds and liquidity management reflect a broader trend, as policymakers around the world are reviewing funds' liquidity management activities and issuing guidance or proposals based on their findings.

For example, as part of its efforts to update its 2013 liquidity management principles for regulated funds, IOSCO conducted a global survey of funds' liquidity management tools. In the summary of its findings, IOSCO noted that:

- » Funds generally disclose the "rules" for investors upfront.
- » Funds generally are responsible in their liquidity management, including through the types of assets in which they invest.
- » As part of their fiduciary duty, fund managers use a significant range and array of liquidity management tools for the benefit of investors.

- » Regulatory requirements have a positive effect on liquidity risk management.
- » Broad systemic consequences from the use of such tools is not evident.

In other words, IOSCO noted that if a fund has liquidity management issues, those issues are usually fund-specific, not category-specific—a conclusion supported by ICI's case study of US high-yield bond funds (see Figure 1 on page 8).

At the national level, the UK Financial Conduct Authority released good practices for liquidity management, and the Hong Kong Securities and Futures Commission released liquidity management guidance. ICI was encouraged to see that these practices and guidance were consistent with IOSCO's 2013 principles.

In the United States, the US Securities and Exchange Commission (SEC) proposed and adopted a rule requiring regulated funds and exchange-traded funds (ETFs) to establish formal liquidity risk management programmes. In its comment letters, ICI generally supported adoption of liquidity risk management programmes by funds, yet raised several critical concerns.

ICI's letters objected, for example, to the Commission's proposed six-bucket asset classification system and related reporting requirements, which the Institute said called for subjective, unknowable projections about the liquidity of each holding. ICI also opposed the proposal's requirement that funds



Watch ICI Global Managing Director Dan Waters discuss ICI's engagement in the debate surrounding funds and financial stability.

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

maintain a minimum amount of assets that could be sold within three days with little price impact, saying it would potentially harm funds' ability to adhere to their objectives, policies, and strategies. Finally, ICI identified pros and cons regarding the proposal's section on swing pricing, citing operational and other potential hurdles to its adoption in the United States.

The final package of reforms—adopted in October 2016—addressed many of the Institute's concerns. The asset classification requirements were simplified, with four buckets, and brought into closer alignment with

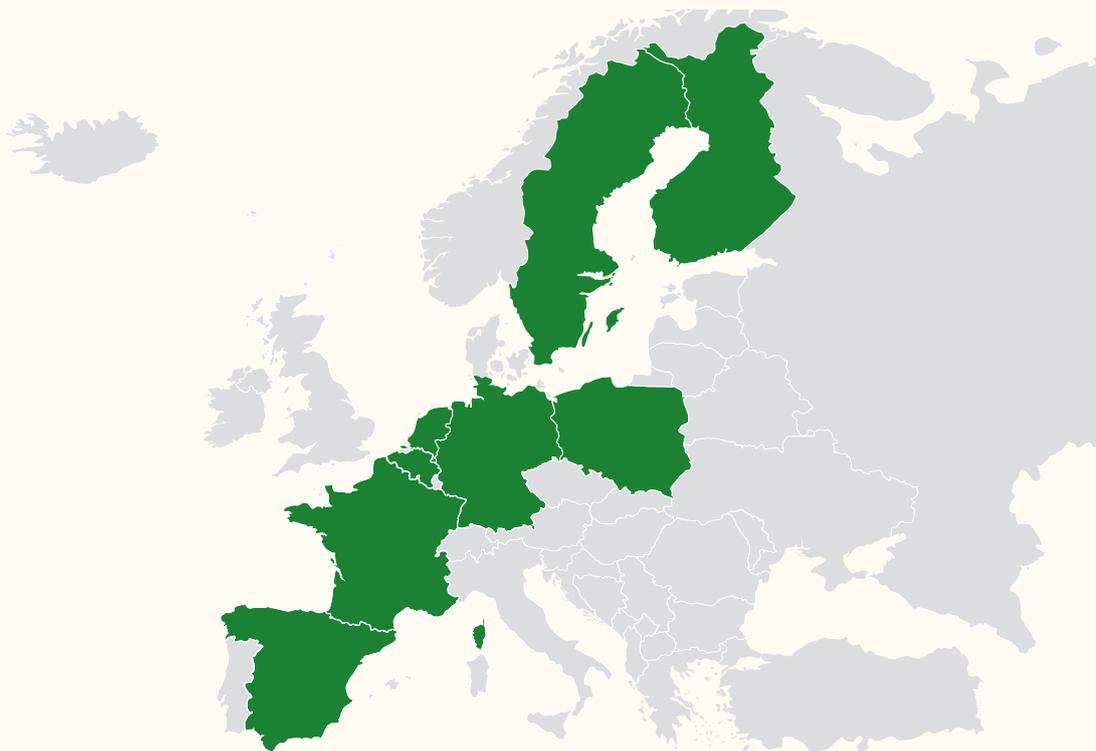
industry practice. Public reporting of this information will be more general, and thus more useful to investors. Many funds will still determine and manage portfolios in accordance with a minimum amount of highly liquid investments, but some mutual funds and ETFs are now exempt from this requirement, and all affected funds will maintain greater portfolio management flexibility. Finally, the SEC recognised the operational challenges of applying swing pricing in the United States, and has delayed its implementation for two years.

Helping US funds recover unduly withheld taxes

Some EU member states have imposed a withholding tax on dividends paid to foreign funds while exempting "comparable" domestic funds from the tax. US member funds 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 US funds 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. Keith Lawson, ICI Global deputy general counsel for tax law, also testified in Spain's National Court and Madrid's High Court as an expert witness on US funds. ICI Global continues to work on this issue to ensure that US funds are not discriminated against and that they receive appropriate tax treatment. ◀

Countries where ICI Global is working to recover unduly withheld taxes



Financial transaction tax: harmful to investors worldwide

Ten EU Member States continue to negotiate a proposal for a financial transaction tax (FTT), despite warnings from ICI Global and others that an FTT would harm investors, slow economic growth, and make markets less efficient. The tax would apply broadly and have a significant extraterritorial effect, because it would be imposed on transactions regardless of where a fund is organised.

This year, as in the past, ICI Global met with financial attachés and finance ministry officials from a majority of the countries considering an FTT to help them better understand the negative impact that an FTT would have on investors worldwide.

Though the 10 countries have reached an agreement on six core features—including which transactions will be taxable and how the tax revenue will be allocated among the participating jurisdictions—many issues affecting funds have yet to be resolved. As the 10 countries continue to discuss their proposal, ICI Global will keep engaging policymakers and continue to urge the relevant European authorities and countries to abandon FTTs.

Advocating for appropriate remuneration frameworks

It is critical for fund managers to have clear, coherent, and consistent compensation rules. Throughout the year ICI Global continued to advocate for rules that take into account the unique nature of asset management.

At the end of 2015, the European Banking Authority (EBA) published final remuneration guidelines under the fourth iteration of the Capital Requirements Directive (CRD IV). The EBA's guidelines are problematic for two reasons.

First, they threaten to fundamentally change how regulatory authorities in Member States and firms can interpret proportionality under the directive. Proportionality is an overarching principle of European law. As applied to remuneration, it enables firms to apply regulatory requirements in a way that is proportionate to the size and scope of an institution and the nature of its activities. Historically, Member State regulators have been able to interpret proportionality to allow the waiver of some remuneration requirements, based on the size, scope,

and complexity of a fund management company. The EBA, however, expressed a position that would turn the traditional interpretation of proportionality on its head, stating that covered firms could not waive remuneration requirements or apply them to a lesser degree. Instead, the EBA said that firms could only apply proportionality in an “upward” manner, meaning they would have to apply at least the minimum requirement—or more.

Second, the guidelines would apply a bonus cap for identified staff of all subsidiaries of a covered bank. This would include fund managers that already are subject to comprehensive remuneration requirements under the UCITS [Undertakings for Collective Investment in Transferable Securities] Directive or the AIFMD [Alternative Investment Fund Managers Directive]—neither of which impose a bonus cap on fund managers. In comment letters, meetings with policymakers, and public forums, ICI Global explained why asset management is fundamentally different from banking and why applying a bonus cap to fund managers is inappropriate. A bonus cap could:

- » weaken the alignment of interests between the portfolio manager and fund investors;
- » make a firm's balance sheet less flexible and adaptable to changing economic and business circumstances;
- » severely distort competition between fund managers; and
- » make it difficult for global fund managers to create consistent and coherent remuneration policies for their staffs, given that remuneration policies in other jurisdictions, such as the United States, rightly do not impose a bonus cap.

Several Member States have made similar arguments. In a rare and notable move, UK, French, and Swedish policymakers have opted not to apply the bonus cap to bank-owned asset managers. The Commission is currently conducting a wider review of CRD IV, which ICI Global hopes will include clarification on the proportionate application of remuneration requirements to subsidiaries of covered banks. In addition, the FSB is working with IOSCO on a review of compensation policies in the securities sector. ICI Global supports IOSCO's active participation in this review, as it will help to ensure that any analysis fully takes into consideration the unique nature of asset management. 🌱

Dispelling hypotheses and myths surrounding funds and investor behaviour

Sound regulation of asset management 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 could harm markets and their participants.

Thus, when the FSB and US Financial Stability Oversight Council (FSOC) published their reviews of asset management activities this year, ICI was concerned that they continued to base some of their proposed recommendations on the hypothesis that, during times of market stress, regulated fund investors can create a destabilising spiral of outflows and falling securities prices. ICI has long argued that funds are a source of strength and stability during times of market stress, and in meetings with policymakers and in a series of blog posts on *ICI Viewpoints*, ICI used a case study of the US high-yield bond market to disprove the theories expressed by the FSB and FSOC.

As part of this case study, ICI looked at investor purchases of US high-yield bond funds between July 2014 and December 2015, when high-yield bond prices fell due to various economic forces and market events. In its analysis of fund and investor behaviour during this period, ICI noted that overall, these funds did experience net outflows for the 18 months beginning in the summer of 2014. Yet—contrary to policymakers’

hypotheses—falling bond prices did not cause investors to move in a single direction, let alone to create a destabilising spiral of outflows. In reality, new purchases of US high-yield bond fund shares remained relatively steady across 2014 and 2015—and during the months of greatest market stress, investor purchases actually rose. These new purchases of fund shares offset a significant portion of the redemptions.

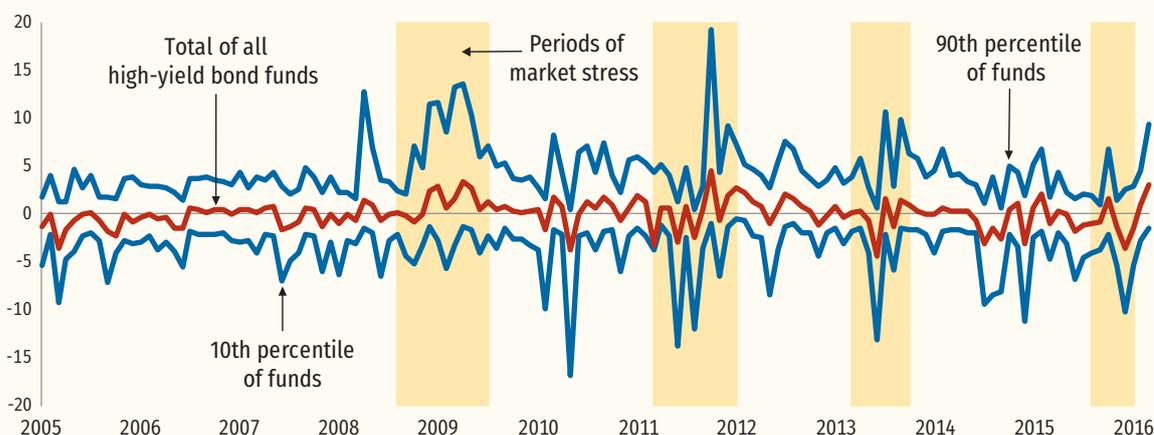
In addition, ICI’s analysis of fund and investor behaviour also showed that money coming out of one fund often goes right back into another fund. For example, ICI looked at a range of US high-yield bond fund flows on a monthly basis as a percentage of assets from January 2005 to March 2016 (see Figure 1). Though there were some significant outflows and inflows during the periods of market stress (as indicated by the yellow rectangles), the net effect of high-yield fund flows was ultimately small, with 80 percent of funds experiencing net flows slightly below or above zero (as demonstrated by the red line).

Rather than basing policy on unproven hypotheses or theoretical scenarios, policymakers should base their proposals on empirical evidence. ICI will continue to supply evidence-based data and analysis, and engage with policymakers as appropriate to ensure that their understanding of funds and investor behaviour is based on fact, not conjecture. ◀

FIGURE 1

Net impact of high-yield bond fund flows is small

Net new cash flow as a percentage of assets; monthly, January 2005–March 2016



Working with the IIFA to ensure the best outcome for funds and their investors

The fund industry is experiencing tremendous growth. At the end of 2008, assets in regulated funds worldwide totalled US\$20.6 trillion. Since then, assets have nearly doubled, exceeding US\$39 trillion at the end of June 2016. These figures underscore not only the growth of regulated fund investing as a global phenomenon, but also the work of the International Investment Funds Association (IIFA).

The IIFA, which comprises more than 40 fund associations from around the globe, works to advance the interests of fund investors and facilitate the continued growth of regulated funds while promoting public understanding of investment funds. To that end, the IIFA functions as an international forum for members to come together to learn about and engage on a wide variety of issues affecting funds and their investors worldwide. For example, this past year, the IIFA created a Pensions Working Committee and a Tax Committee to foster an exchange of information about industry trends and address policy developments.

Advancing the IIFA's mission, however, requires more than understanding industry trends and policy developments; it also requires open communication with policymakers. Consequently, the IIFA also acts as a platform for outreach with the regulatory community. As chairman of the IIFA since 2014, ICI President and CEO Paul Schott Stevens works with IIFA members to ensure that the voice of investment funds is heard in the regulatory dialogues shaping asset management regulations. For example, during the past two years, IIFA members have come together to submit letters

on a variety of issues, including the US SEC's 2016 liquidity management proposal and the FSB's 2015 consultation on methodologies for designating funds and their managers as global systemically important financial institutions.

The IIFA also communicates with the regulatory community through its data collection and reporting programme. Every quarter, ICI research staff work with IIFA members to collect and compile data, which the IIFA sends to IOSCO. This type of data collection and consistent reporting is crucial, as it gives the public, regulators, and policymakers a more complete picture of the regulated funds sector and illustrates how important funds have become as financial intermediaries worldwide.

Coming together to learn from one another and address policymakers' concerns is critical. The IIFA will continue to bring the collective insights of its members to bear on issues affecting asset managers, to ensure the best outcome for fund investors around the globe. 🌐



IIFA Chairman and ICI President and CEO, Paul Schott Stevens, welcomes members and calls to order the 30th Annual Conference of the IIFA.



Raising awareness about private pension provision and the role of regulated funds

Demographic and economic pressures are straining government pay-as-you-go retirement systems worldwide. As a result, many countries are examining their overall pension systems and considering reforms to their private and public pillars.

For example, China is assessing its retirement system and looking to other countries' experiences with second- and third-pillar reform. To help advance the dialogue, ICI Global cohosted a high-profile international event in Beijing, featuring senior representatives from Chinese agencies, presentations from four different countries, and an insightful roundtable.

In Europe, the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are also exploring options for providing EU citizens with additional opportunities to save for retirement. One option is a voluntary, pan-European personal pension (PEPP), which is also a key component of the EU Capital Markets Union. ICI Global engaged on this important initiative because a well-designed PEPP could present opportunities for both funds and retirement savers, and help deepen EU capital markets (see page 16).



Li Chao, vice chairman of the China Securities Regulatory Commission, highlights the importance of reforming China's pension system at the International Private Pension Systems Conference.

Fostering international dialogue

On 22 April 2016, ICI Global, the Asset Management Association of China, and the Centre for International Social Security Studies at the Chinese Academy of Social Sciences (CISS CASS) came together in Beijing to host the International Private Pension Systems Conference. This event brought together policymakers, industry experts, and academics from Canada, Germany, the United Kingdom, and the United States to meet with their Chinese counterparts. Some 200 participants learned about different countries' experiences with pension reform and the role that funds can play in helping build retirement savings.

The conference continued an international dialogue that ICI Global has pursued since 2013. Through events in Paris (in partnership with the Organisation for Economic Co-operation and Development), Tokyo, Geneva, and Hong Kong, ICI Global has convened experts to discuss pension system design and how governments can help individuals build adequate retirement savings.

The Beijing event began with presentations by four senior representatives from key Chinese agencies and ministries. Following their remarks, Professor Zheng Bingwen, director of CISS CASS, gave a presentation on the Chinese system and his ideas for reforms, which included developing a third pillar: a framework that would allow individuals to save in tax-advantaged personal retirement accounts that could be invested in regulated funds, among other possible instruments. Given China's interest in lessons learned by other jurisdictions, the latter part of the conference focused on four countries' experiences with establishing and reforming private pension systems with individual accounts.

Experts from the United States, United Kingdom, Germany, and Canada each offered an overview of their systems. Though each country uses some sort of tax

incentives to encourage private savings, they all have reformed their second or third pillars in different ways. For example:

- » The United States improved its defined contribution system to make it easier for employers to use automatic enrolment, automatic escalation, and diversified default investment vehicles for retirement savers who fail to elect their own savings options.
- » The United Kingdom also mandated automatic enrolment at the employer level and created the National Employment Savings Trust, or NEST—a government-supported savings plan that is required to accept all employers as members and that relies heavily on behavioural economics in its system design.
- » Germany developed Reister private pensions—tax-advantaged voluntary individual savings accounts that also provide subsidies to low-income households.
- » Canada developed a private savings framework that consists of registered retirement savings plans and tax-free savings. Canada credits the success of the framework to robust securities regulation; stable, well-regulated markets and institutions; comprehensive product disclosure; and the strong sense of trust that investors have in financial advisers.

After the presentations, the speakers reflected on the day's insights at a roundtable, concurring that private savings systems cannot succeed without proper regulatory oversight, strong governance, and individuals' trust in the system.

Supporting a pan-European personal pension

To help EU citizens build more private pension savings, the European Commission and EIOPA are examining the creation of a PEPP product. Such a product could help expand retirement savings opportunities in Europe and would operate alongside Member States' national personal pension products, instead of replacing them. During the past year, the Commission and EIOPA explored how the framework should be structured, and ICI Global engaged on this important initiative, as it could offer several important benefits. A well-designed PEPP could:

- » enable providers to offer retirement savings products throughout Europe, opening competition across borders and reducing costs for consumers;

- » allow European citizens to take their retirement savings with them when moving to another country, accommodating Europe's increasingly mobile workforce; and
- » channel long-term stable funding to companies across Europe, deepening the continent's capital markets.

In meetings with both the Commission and EIOPA—and in written responses to several consultations—ICI Global emphasised that the framework must protect consumers while enabling providers to develop attractive product offerings.

ICI Global also explained that a workable PEPP framework would need to standardise some features (such as disclosure requirements and a default investment option) while allowing flexibility in others (such as the use of guarantees and fee caps). This approach strikes the right balance between the simplicity and efficiency offered by standardisation, and the flexibility that providers need to develop innovative products, attend to diverse consumer needs, and comply with Member State laws.

One major hurdle facing any PEPP framework is the wide variation in tax rules applicable to retirement savings. Recognising that Member States are not likely to harmonise their tax regimes, ICI Global recommended that the Commission consider creating a tax-reporting framework that would help consumers and governments keep track of PEPP activities—an approach similar to how the United States accommodates the different tax rules of states by standardising tax reporting of individual retirement accounts. ◀



For more information about the **International Private Pension Systems Conference**, including videos and commentary, please visit www.iciglobal.org/beijingconference.



Supporting industry growth and investor opportunities in the Asia-Pacific region

Asset management throughout the Asia-Pacific region is rapidly evolving, with different markets at different stages of development. To help funds and their investors take advantage of the opportunities in this dynamic region, ICI Global engaged on many issues—including Hong Kong’s strategy to strengthen its asset management sector, China’s continued efforts to open up its capital markets, and the implementation of the Asia Region Funds Passport (ARFP).

Hong Kong’s asset management strategy

Hong Kong’s fund industry has the potential for tremendous growth. A more robust asset management sector would help deepen the jurisdiction’s capital markets and provide more opportunities for investors inside Hong Kong and around the world. To help realise this potential, the Securities and Futures Commission (SFC) developed a plan to strengthen the fund industry. ICI Global engaged on many SFC initiatives, including a new process for approving funds and a review of asset management regulations.



Qiumei Yang, CEO of ICI Global Asia Pacific, discusses pension reform and the role that funds can play in helping people build retirement savings at the International Private Pension Systems Conference (see page 10).

IMPROVED FUND APPROVAL PROCESS.

In October 2015, the SFC proposed and implemented a pilot programme to reduce the approval time for new fund applications. The commission classified all new fund applications as either standard or nonstandard applications, and streamlined the application steps, reducing the approval time from six months to one to three months, depending on the type of application. ICI Global formed a working group and submitted suggestions to the SFC, which included ways to simplify disclosure requirements for new fund applications. The SFC adopted the new process in May, taking into account members’ perspectives by incorporating many of their recommendations.

REVIEW OF ASSET MANAGEMENT REGULATIONS AND LIQUIDITY MANAGEMENT.

A strong regulatory framework is essential for the operation of regulated funds, as well as the protection of their investors. Recognising this, the SFC published a “soft consultation” on asset managers’ activities, exploring how best to enhance the regulation of such activities as securities lending, liquidity management, and portfolio valuation. In a comment letter and meetings with the SFC, ICI Global urged the commission to conduct a cost-benefit analysis to ensure that any proposed changes are appropriate for funds and do not have any adverse extraterritorial effects. ICI Global also explained that it generally supported the Financial Stability Board’s recommendations for securities lending, and the International Organization of Securities Commission’s recommendations on custody, portfolio valuation, and liquidity management. More specifically, ICI Global encouraged the SFC to focus on a principles-based, risk-targeted approach to liquidity management—an approach that the commission later endorsed when it released principles-based liquidity management guidance for funds.

Accessing China's market through offshore investment vehicles

China continues to open up its capital markets to diversify sources of funding and bolster economic growth. Enabling offshore investment is key to deepening its markets, and China has developed and reformed various programmes to make it easier for offshore funds and their investors to access the country's market (see Figure 2). From the renminbi qualified foreign institutional investor (RQFII) scheme to the mainland–Hong Kong mutual recognition of funds, ICI Global has engaged with policymakers as appropriate and worked with members to help them take advantage of these programmes.

In the past year, the People's Bank of China continued to open up the country's markets to offshore investment by announcing reforms to the China Interbank Bond Market (CIBM). Previously, the CIBM was open only to certain types of foreign investors, such as foreign central banks, monetary authorities, sovereign wealth funds, and international organisations. Now a host of new market participants and investment vehicles can access the CIBM, including all types of financial institutions. To help members better understand the reforms, ICI Global hosted a conference call that

provided an overview of the CIBM, trading flows on that market, and market entry requirements for offshore investors. Members from Hong Kong, Australia, Singapore, and London participated in the discussion. ICI Global continues to work with members worldwide as they navigate this market.

Encouraging implementation of the Asia Region Funds Passport

In April, following more than six years of negotiation, Australia, Japan, Korea, and New Zealand signed a memorandum of cooperation on the ARFP, which will enable asset managers to market and distribute funds among participating countries. ICI Global has long supported the ARFP's development. It will help integrate the Asia-Pacific region's financial markets, expand investor opportunities, and help regulated funds achieve greater regional scale and efficiencies. During this past year, in meetings with policymakers and in public forums, ICI Global encouraged the ARFP's progress while urging regulators to help improve prospects for the initiative's long-term success by examining the passport's operational aspects and tax framework. The passport could be available to funds in 2017 if two or more participating economies implement the necessary domestic arrangements. 🌱

FIGURE 2

Accessing China's capital market: available offshore investment vehicles for funds

VEHICLE	ELIGIBLE INVESTORS	ASSET ALLOCATION
QFII scheme	Overseas asset managers, insurance, securities companies, banks, funds, government agencies	No restrictions on asset allocation
RQFII scheme	Qualified financial institutions in designated offshore renminbi markets	No restrictions on asset allocation
Shanghai–Hong Kong Stock Connect	Qualified mainland investors (southbound) All Hong Kong and overseas institutional and individual investors (northbound)	Not applicable
Shenzhen–Hong Kong Stock Connect (expected to launch December 2016)	Qualified mainland investors (southbound) All Hong Kong and overseas institutional and individual investors (northbound)	Not applicable
Mainland–Hong Kong Mutual Recognition of Funds	General investors for publicly offered funds in mainland China and offshore markets	Funds sold in Hong Kong should be invested mainly outside Hong Kong, and vice versa
China Interbank Bond Market scheme	Various investors including central banks, sovereign wealth funds, renminbi clearing banks, overseas renminbi participating banks, foreign insurance companies, QFIIs, and RQFIIs	No restrictions on asset allocation

ICI Global: serving funds and their investors worldwide

Select policy work and activities from fiscal year 2011 through fiscal year 2016

ICI Global was launched in 2011, and in just five short years has successfully advocated on behalf of funds and their investors on a wide variety of matters within four main policy areas: cross-border regulation; the role of funds in retirement and long-term savings; trading and market structure; and operations and cybersecurity. The following illustrates how ICI Global's engagement on different policy issues has served the interests of funds and their investors worldwide.

THE ROLE OF FUNDS IN RETIREMENT AND LONG-TERM SAVINGS

Addressing retirement savings challenges

Promoted funds' role in building retirement savings by hosting a series of pension conferences that brought together policymakers and key stakeholders globally, engaging on policies surrounding pension reforms in different jurisdictions, and working with the OECD to position the fund industry as a thought leader on pension reform.

JURISDICTIONS: Chile, China, European Union, Hong Kong, Japan



Meeting operational and information security challenges

Provided resources and support for fund operations around the world, and helped members better understand the latest cybersecurity threats and how to mitigate them. Also supported policy initiatives designed to enhance cybersecurity, including working with the IOSCO AMCC to develop an annual cybersecurity survey for asset managers.

JURISDICTIONS: European Union, Hong Kong, Japan, Russia, Saudi Arabia, Singapore, United States

OPERATIONS AND CYBERSECURITY

CROSS-BORDER REGULATION

Championing sound tax policies

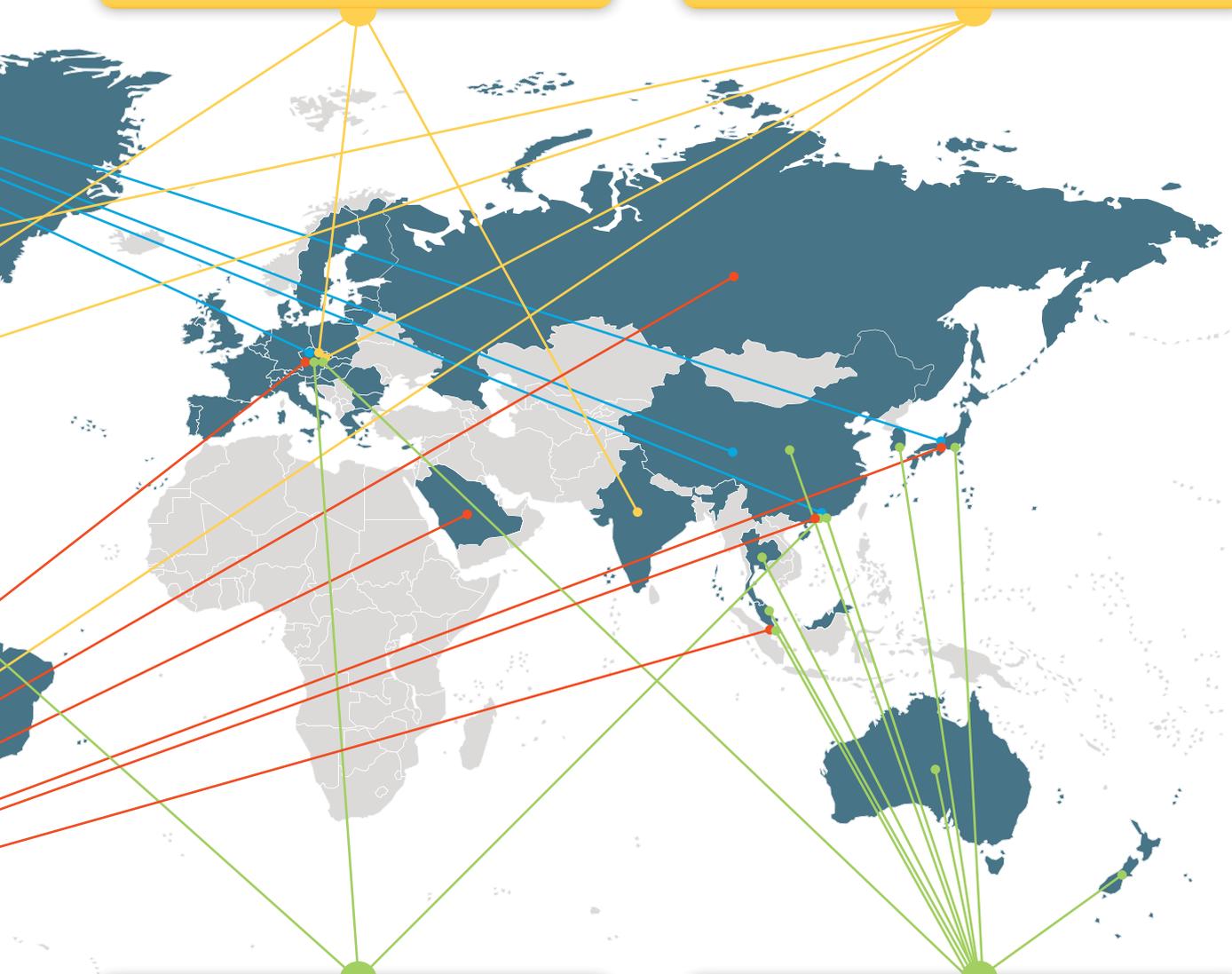
Protected fund investors from adverse tax consequences by helping members recover improperly withheld taxes and by leading industry opposition to the Indian minimum alternate tax and European financial transaction tax.

JURISDICTIONS: European Union, India, United States

Providing perspective on funds and financial stability

Worked with national and global policymakers to help them better understand the unique nature of asset management and why neither funds nor their activities pose a threat to financial stability.

JURISDICTIONS: Brazil, Canada, European Union, United States



Advocating for appropriate derivatives regulation

Engaged on derivatives regulation, including encouraging jurisdictions to recognise global clearinghouses and advocating for fair and effective margin requirements.

JURISDICTIONS: European Union, Hong Kong, United States

Encouraging capital market development

Supported initiatives to deepen capital markets, including the EU Capital Markets Union and the development of cross-border fund passports in the Asia-Pacific region.

JURISDICTIONS: Australia, China, European Union, Hong Kong, Japan, Korea, Malaysia, New Zealand, Singapore, Thailand

TRADING AND MARKET STRUCTURE



Ensuring the fair and orderly operation of capital markets worldwide

Policymakers across the globe are increasingly recognising that strong capital markets are critical to stimulating economic growth. Key to the development and evolution of such markets are initiatives that foster growth and regulatory frameworks that support the fair and efficient operation of securities markets. Regulated funds play a critical role in capital markets, and ICI Global engaged on a host of issues to ensure that such markets remain highly competitive and efficient for the benefit of investors around the world.

Supporting the growth of capital markets

One of the European Commission's economic goals is to foster stronger sustainable growth by diversifying funding sources and integrating the region's capital markets through its Capital Market Union (CMU) initiative. When realised, the CMU will present many benefits for funds and their investors, including a broader range of investment opportunities for fund managers around the world.

Two of the key priorities for the CMU are removing cross-border barriers to capital market development, and increasing institutional and retail investment. Because these priorities are especially relevant for funds, ICI Global engaged on several related proposals, including a consultation on the cross-border distribution of funds across the European Union and a green paper on retail financial services.

In its response to the consultation, ICI Global recommended that the European Commission should facilitate and improve the distribution of funds across borders by focusing on:

- » simplifying and converging authorisation and notification requirements for UCITS funds;
- » developing a harmonised marketing process;

- » creating a single pan-EU private placement regime to facilitate the distribution of securities to professional investors; and
- » adopting regulatory frameworks that encourage and accommodate the use of financial technology.

In its reply to the Commission's green paper on retail financial services, ICI Global made a number of recommendations to enhance retail investors' access to regulated funds, including removing barriers to the cross-distribution of funds; developing regulatory approaches that support and accommodate investors' use of technology; changing tax regulations to achieve tax neutrality and enhanced tax relief for cross-border funds; and prioritising the creation of a pan-European personal pension product (see page 11).

Encouraging appropriate and coordinated derivatives regulation

Derivatives are an important portfolio management tool for regulated funds worldwide. Derivatives trading often happens across borders—between counterparties in Europe and the United States, for example. As such, it is critical that the United States and the European Union avoid duplicative or conflicting regulations by coordinating regulatory reform.

JOINT RECOGNITION OF EU AND US CENTRAL COUNTERPARTIES (CCPs).

In the aftermath of the global financial crisis, US and EU regulators mandated that counterparties clear some of their derivatives trades—including certain types of swaps—with a CCP. These mandates, however, presented a challenge because a transaction can be cleared only in one location, and the European Union and the United States had not authorised a CCP to clear for both jurisdictions.

In comment letters, meetings with EU and US regulators, and speeches, ICI Global explained that if the European Union and United States did not recognise each other's CCP supervisory regimes as equivalent, EU and US regulated funds would no longer be able to participate in cross-border trades that were subject to clearing mandates. Preventing cross-border trading would fragment the markets and potentially hurt liquidity, to the detriment of funds and other participants.

In February 2016—after years of negotiations—the US Commodity Futures Trading Commission (CFTC) and the European Commission announced a common approach to regulating and supervising CCPs. The approach enables EU regulated funds to clear through US CCPs registered with the CFTC, and US regulated funds to clear through EU-authorized CCPs. The CFTC and European Commission have implemented the common approach, and ICI Global will continue to support these efforts as appropriate.

MARGIN REQUIREMENTS FOR OVER-THE-COUNTER (OTC) DERIVATIVES. In 2014, EU policymakers issued a consultation on draft regulatory standards covering margin requirements for uncleared OTC derivatives. Among other obligations, these proposed standards would have required EU entities to collect—but not post—collateral when dealing with non-EU counterparties, such as US funds.

In comment letters and meetings with policymakers, ICI Global explained how this proposed one-way margining regime would undermine two of the proposal's objectives—to mitigate both counterparty risk and the buildup of systemic risk—and called for EU dealers to post and collect margin from non-EU funds. In March 2016, when EU policymakers released their final draft regulatory standards, ICI Global was pleased that they required two-way margining. ICI Global expects European authorities to finalise these regulatory technical standards in the near future.

Helping funds navigate new dealing commission requirements

During the legislative process for the reform of the Markets in Financial Instruments Directive (MiFID II), the European Securities and Markets Authority (ESMA) proposed requirements that would have significantly changed funds' use of dealing commissions to acquire research. ICI Global explained to policymakers that

such requirements would disproportionately harm small- and medium-sized issuers, niche research providers, and certain investment firms—and ultimately disrupt global trading and research platforms.

Though the European Commission's final provisions greatly change the process for acquiring research, they are less restrictive than the proposed requirements and may provide firms with more flexibility in complying. ICI Global is working with members and other industry participants to understand and address the challenges that these new requirements pose.

EU trade and transaction reporting obligations

To better understand funds and their activities, EU policymakers are requiring funds to report more information, under both MiFID II and the Securities Financing Transaction Regulation (SFTR). MiFID II imposes broader transaction-reporting obligations on asset management firms when they are buying and selling financial instruments, and the SFTR imposes new trade reporting obligations on asset management firms when they are concluding certain securities lending and repurchase agreements.

Some aspects of these regulations are complex, and ICI Global is engaging with European supervisors to clarify the type of information that funds must report, specifically in situations in which a non-EU fund or entity—such as an investment adviser in the United States—carries out trades inside or outside the European Union. 🌐



111

The number of comment letters that ICI sent to regulatory authorities around the world in 2016.



Engaging on cybersecurity and operational challenges facing funds

Around the world, funds are facing a host of cybersecurity and operational challenges, making it increasingly complex for them to protect sensitive information and conduct business. From bringing asset managers together to better understand evolving cybersecurity threats, to helping fund companies enhance and standardise their due diligence processes when onboarding distributors, the Institute worked with members to help them meet a variety of challenges facing funds and their investors worldwide.

Information security: keeping up with a rapidly evolving threat

Increasingly sophisticated cyberthreats are testing fund companies' information security programmes, adding to the challenge of running a complex business while safeguarding shareholders' assets and information. Defending against these threats is far more than a technological concern. In addition to a secure infrastructure, the keys to a robust information security programme are knowledge and preparedness. Over the past year, ICI Global worked to strengthen the fund industry's efforts in building both.

To help member firms build knowledge about cybersecurity issues—and to enable them to share ideas and experiences with their peers—ICI Global held a series of events that brought members together with senior government officials and information security professionals.

For example, at global cybersecurity seminars in Hong Kong, Singapore, and Tokyo, attendees learned about the latest threats and vulnerabilities, effective

defence strategies, and how to improve their firms' information security programmes. At the Global Cybersecurity Forum in London, member firms, compliance officers, and risk managers gathered to discuss the evolution of hacking and cyberattacks; the importance of identifying and protecting key assets before addressing other information security challenges; and how to manage third-party risk.

Even with all the work that fund companies put into protecting themselves from a cyberattack, companies also have to focus on how to react if a breach does occur. To prepare for that possibility, firms develop and test incident response plans that define every employee's role in responding to a cyberattack and keep everyone on the same page about what a potential investigation into a breach might entail.

ICI Global's Information Security Officer Committee helps guide member firms in creating these plans, ensuring that they focus on a core element that all



Tony Cole, vice president and global government chief technology officer of FireEye, discusses the evolving cybersecurity landscape at the Global Cybersecurity Forum.

plans should have: a solid role for law enforcement. Over the past year, the committee held open houses and other events where chief information security officers (CISOs) of member firms were able to build professional relationships with top cybersecurity investigators at the Federal Bureau of Investigation and Secret Service in the United States, the City of London Police and National Crime Agency in the United Kingdom, and the National Policy Agency and Cybercrime Control Center in Japan.

The CISOs learned about the agencies' forensic capabilities, and how best to work with the agencies during an investigation. In return, the agents learned more about the cybersecurity challenges facing the fund industry, and about the important role it plays in the global financial system.

How does your cybersecurity programme stack up?

One of the essential principles of protecting against cyberthreats is to draw from real-world experience—distinguishing the strategies and practices that are working from those that are less successful. ICI Global is helping share that experience with fund managers worldwide through its annual survey of fund complexes' cybersecurity programmes.

With two years now in the books, the anonymous survey—developed jointly with the International Organization of Securities Commission's Affiliate Members Consultative Committee (IOSCO AMCC)—is proving to be a powerful tool. The results are giving ICI Global and IOSCO a better sense of how the industry's cybersecurity practices are developing in response to evolving risks, and helping guide each organisation's focus on where to direct efforts going forward.

And because it is the only survey of its kind designed exclusively for asset management, rather than financial services at large, participating firms can use the results to gauge how their cybersecurity programmes compare against those of their peers. This enables participating firms to better identify their strengths and areas where they might need to refocus

resources, and to provide more accurate and detailed reports to senior management or board members.

How well do you know your distributor?

When fund companies are looking to onboard a distributor, it is important that they properly evaluate the distributor's business practices. To that end, ICI Global worked with members of the International Operations Advisory Committee to develop the Know Your Distributor Survey. The survey, which European distributors complete once and can provide to any fund company requesting information about them, is designed to enhance and standardise fund companies' due diligence processes when onboarding distributors.

The survey incorporates the feedback of more than 50 fund companies and several top audit firms, and covers a wide range of subjects, including counterterrorism financing and anti-money laundering policies, compliance with the US Foreign Account Tax Compliance Act (FATCA), and the new product governance and target markets provisions of the revised Markets in Financial Instruments Directive (MiFID II).

ICI Global has shared the survey with distributors and industry working groups, and are encouraging fund companies to adopt it. 📧



To learn more about the **Know Your Distributor Survey**, please contact Ahmed Elghazaly, director of securities operations for ICI, at ahmed@ici.org.



Appendices

APPENDIX A Organisation

ICI Global carries out the international work of the Investment Company Institute (ICI), serving a fund membership that includes regulated funds publicly offered to investors in jurisdictions worldwide, with combined assets of US\$19.5 trillion as of 30 September 2016. ICI Global seeks to advance the common interests and promote public understanding of global investment funds, their managers, and investors. Its policy agenda focuses on issues of significance to funds in the areas of financial stability, cross-border regulation, market structure, and pension provision. ICI Global has offices in London, Hong Kong, and Washington, DC.

The ICI Board of Governors launched ICI Global and created the ICI Global Steering Committee in October 2011. The Steering Committee comprises 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 a leading global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. The Institute's US member funds represent 98 percent of the US mutual fund market, serve more than 95 million investors, and manage total assets of US\$18.4 trillion as of 30 September 2016.

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

(AS OF 30 SEPTEMBER 2016)

Campbell Fleming (Chairman)
Global Head of Distribution
Aberdeen Asset Management PLC

Mark Armour
Chairman of EMEA
Invesco Perpetual

Angela M. Billick
Assistant Vice President and
Head of Offshore Funds
John Hancock Investments

Richard Bisson
President
Nomura Asset Management UK Limited

Clive Brown
CEO, International
RBC Global Asset Management

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

Chen Ding
Chief Executive Officer
CSOP Asset Management Limited

Jan-Peter Dolff
Managing Director
Comgest

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

Jamie Hammond
UK CEO and Managing Director
AllianceBernstein, Ltd.

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

Dominik Kremer
Head of EMEA and Latin
America Distribution
Columbia Threadneedle Investments

Wen Li
Chairman
China Universal Asset
Management Co., Ltd.

Peter Lindqvist
Chief Executive Officer
Harvest Global Investments (UK) 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

David Morley
Business Development Director
Eaton Vance Management
(International) Limited

James M. Norris
Managing Director, International
Operations
Vanguard Asset Management Limited

Andy Olding
Head of EMEA Fund Administration
Neuberger Berman Europe Limited

Nicholas Phillips
Head of EMEA Third Party Distribution
Goldman Sachs Asset
Management International

Jed Plafker
Executive Managing Director
Franklin Templeton Investments

Karla M. Rabusch
President
Wells Fargo Funds Management, LLC

JungHo Rhee
Chief Executive Officer
Mirae Asset Global Investments
(HK) Limited

Tom Rice
Chief Legal Officer
PIMCO Europe Ltd.

Elizabeth Samson
Head of Product Development
PGIM Investments

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 Asset Management (UK)

Hidetoshi Yanagihara
Chief Executive Officer
Asset Management One International Ltd.

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 30 SEPTEMBER 2016)

Leadership

Paul Schott Stevens

President and CEO

Investment Company Institute

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

(AS OF 30 SEPTEMBER 2016)

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 Steering 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 Brexit Task Force
ICI Global Capital Markets Union Task Force
ICI Global Shadow Banking Task Force

APPENDIX E

Members

(AS OF 30 SEPTEMBER 2016)

Aberdeen Asset Management PLC	Harvest Global Investments Limited
Affiliated Managers Group, Inc.	Henderson Global plc
AllianceBernstein, Ltd.	Invesco Perpetual
Artisan Partners Global Funds, plc	Ivy Investment Management Company
Asset Management One Co., Ltd.	John Hancock Financial Services, Inc.
Baring Asset Management Limited	J.P. Morgan Asset Management (UK) Limited
Bosera Asset Management Co., Ltd.	Legg Mason Investments (Europe) Limited
Capital Group Companies Global	Matthews International Capital Management, LLC
China Asset Management (Hong Kong) Limited	Mirae Asset Global Investments (HK) Limited
China International Fund Management Co., Ltd.	MFS Investment (UK) Ltd
China Universal Asset Management Co. Ltd	Morgan Stanley Investment Management Limited
Columbia Threadneedle Investments	Neuberger Berman Management LLC
Comgest	Nikko Asset Management Co. Ltd.
Coronation Fund Managers Limited	Nomura Asset Management Co., Ltd.
CSOP Asset Management Limited	Nuveen Investments
Dodge & Cox Worldwide Investments Ltd.	PGIM Investments
E Fund Management (HK) Co. Ltd.	PIMCO Europe Ltd.
Eaton Vance International (Ireland) Funds plc	RBC Global Asset Management
Federated Investors, Inc.	SSgA Funds Management, Inc.
FMR Investment Management (UK) Limited	T. Rowe Price International Ltd.
Franklin Templeton Investments	TD Asset Management, Inc.
Fuh Hwa Securities Investment Trust Co. Ltd	UBS Asset Management (UK)
Fullgoal Asset Management (HK) Ltd.	Vanguard Asset Management Limited
Goldman Sachs Asset Management International	Wells Fargo Funds Management, LLC
Hai Tong Asset Management (HK) Limited	

APPENDIX F

Key appearances and events

ICI Global speeches and testimonies

10 February 2016	Dechert Funds Congress London
21 March 2016	European Capital Markets Conference London
20 April 2016	Fund Forum Asia Hong Kong
5 June 2016	China Wealth Forum Qingdao
6 July 2016	The City Remuneration Summit 2016 London
29 August 2016	XIV AAFM 2016 Convention Viña del Mar

ICI Global events

8 December 2015	Global Trading and Market Structure Conference London
25 January 2016	Seminar: The Future of Active Management Hong Kong
13 April 2016	Seminar: Cybersecurity Facts and Fundamentals Tokyo
18 April 2016	Seminar: Cybersecurity Facts and Fundamentals Hong Kong
22 April 2016	International Private Pension Systems Conference* Beijing
14 June 2016	Global Cybersecurity Forum London
19 September 2016	Seminar: China's Markets and the Latest Reforms Hong Kong

**Cosponsored by the Asset Management Association of China and the Centre for International Social Security Studies at the Chinese Academy of Social Sciences*



ICI Global action on select policy developments, fiscal year 2016

Cross-border regulation

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

ICI Global met with EU government officials, testified in court, and coordinated with members' counsel to pursue reclaims of improperly collected taxes. ICI Global will continue to work on this issue to ensure that US funds are not discriminated against and receive appropriate tax treatment.

EU REMUNERATION GUIDELINES: EU regulators adopted guidelines on remuneration policies under the fourth iteration of the Capital Requirements Directive (CRD IV) and UCITS V. The interpretation of proportionality and application of bonus caps under CRD IV continue to raise significant concerns for members.

In comment letters, meetings with policymakers, and a high-profile speech, ICI Global continued to advocate against a restrictive interpretation of proportionality and the application of bonus caps to fund managers that are subsidiaries of CRD IV firms.

FINANCIAL TRANSACTION TAX (FTT): Ten EU member states continue to negotiate a proposal for an FTT, which ICI Global says would harm fund investors and reduce market efficiency.

ICI Global met with financial attachés and finance ministry officials to help them better understand the negative impact that an FTT would have on investors worldwide. ICI Global will keep engaging with policymakers and continue to urge the relevant European authorities and countries to abandon FTTs.

FUNDS AND FINANCIAL STABILITY: The Financial Stability Board (FSB) published a consultation on asset management activities, focusing on four key areas: liquidity mismatch, leverage, operational risks, and securities lending. The FSB proposed policy recommendations for each area, and charged the International Organization of Securities Commissions (IOSCO) and national regulators with shaping the reforms.

In a comprehensive response, ICI commended the FSB for directing IOSCO and national authorities to shape any future reforms; commented on the FSB's policy recommendations in each of the four areas; and expressed continuing concern with flaws in the FSB's process. ICI explained that the FSB's asset management work still relies on theory and conjecture while discounting data and experience, and urged the FSB to adopt more exacting principles and standards to govern its work going forward.

FUNDS AND LIQUIDITY MANAGEMENT: See page 5.

Operations and cybersecurity

CYBERSECURITY: Increasingly sophisticated cyberthreats continue to test fund companies' information security programmes, adding to the challenge of running a complex business while safeguarding shareholders' assets and information.

To help members better understand the evolving nature of cybersecurity and how they can protect against threats, ICI Global held a series of events around the world, helped members in their efforts to develop incident response plans, and—through an annual survey of fund complexes' cybersecurity programmes—enabled fund managers to evaluate and compare their information security practices.

KNOW YOUR DISTRIBUTOR SURVEY: See page 19.

Regulatory initiatives in the Asia-Pacific region

ASIA REGION FUNDS PASSPORT (ARFP): Australia, Japan, Korea, and New Zealand signed a Memorandum of Cooperation on the ARFP. The passport could be available to funds in 2017 if two or more participating economies implement the necessary domestic arrangements.

In meetings with policymakers and in public forums, ICI Global supported the ARFP's implementation while urging regulators to examine the passport's operational aspects and tax framework to help improve the initiative's long-term success.

CHINA INTERBANK BOND MARKET (CIBM): The People's Bank of China reformed the CIBM by broadening offshore access, allowing new market participants and investment vehicles, including all types of financial institutions, to participate.

To help members better understand the reforms, ICI Global hosted a conference call that provided an overview of the CIBM, the trading flows, and market-entry requirements for offshore investors.

HONG KONG'S NEW FUND APPROVAL PROCESS: The Securities and Futures Commission (SFC) proposed and adopted a new process to reduce the approval time for new fund applications from six months to a range of one to three months.

ICI Global formed a working group and submitted feedback to the SFC, including suggestions to simplify disclosure requirements for new fund applications. The SFC adopted the new process in May, incorporating many recommendations made by ICI Global and its members.

HONG KONG'S REVIEW OF ASSET MANAGEMENT AND LIQUIDITY: The SFC published a soft consultation on asset managers' activities, exploring how best to enhance the regulation of such activities as securities lending, liquidity management, and portfolio valuation.

ICI Global urged the SFC to conduct a cost-benefit analysis to ensure that any proposed changes are appropriate for funds and do not have any adverse extraterritorial effects. ICI Global also offered feedback on several issues, including liquidity management. ICI Global encouraged the SFC to focus on a principles-based, risk-targeted approach to liquidity management—an approach that the commission later endorsed when it released principles-based liquidity management guidance for funds.

The role of funds in retirement and long-term savings

PAN-EUROPEAN PERSONAL PENSION (PEPP): The European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are examining the creation of a voluntary PEPP to help EU citizens build more private pension savings. Both the European Commission and EIOPA published consultations on a PEPP.

In comment letters and meetings with policymakers, ICI Global emphasised that a PEPP framework must protect consumers while enabling providers to develop attractive product offerings. ICI Global also explained that a workable PEPP framework would need to standardise some features while allowing flexibility in others. Finally, ICI Global recommended that the European Commission consider creating a tax-reporting framework that would help consumers and governments keep track of PEPP activities.

Trading and market structure

JOINT RECOGNITION OF EU AND US CENTRAL COUNTERPARTIES (CCPs): After the global financial crisis, US and EU regulators mandated that counterparties clear certain types of swaps through a CCP. These mandates presented a challenge because a transaction can be cleared only in one location, and the European Union and the United States had not authorised a CCP to clear for both jurisdictions.

ICI Global has long encouraged the European Union and United States to recognise each other's CCP supervisory regimes as equivalent, explaining how failure to do so would negatively affect regulated funds and capital markets. In February 2016, EU and US policymakers announced a common approach to regulating and supervising CCPs.

MARGIN REQUIREMENTS FOR OVER-THE-COUNTER (OTC) DERIVATIVES: In 2014, EU policymakers issued a consultation on draft regulatory standards covering margin requirements for uncleared OTC derivatives. One of the major concerns for cross-border transactions was that these proposed standards would have required EU entities to collect—but not post—collateral when dealing with non-EU counterparties, such as US funds.

In comment letters and meetings with policymakers, ICI Global explained how this proposed one-way margining regime would undermine the proposal's objectives, and called for EU dealers to post and collect margin from non-EU funds. The final rules address these concerns, and they will be implemented in 2017.

CAPITAL MARKETS UNION (CMU) INITIATIVE: See page 16.



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