

## ICI VIEWPOINTS

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## 2013 Regulatory Challenges and Trends Facing Global Funds

By Dan Waters

ICI Global [launched](#) last autumn with 12 members and a mission to serve as a voice for global investment funds and their investors. It's been quite a ride since: we now have 31 members who manage more than \$1 trillion in registered fund assets in North America, Europe, and Asia. As 2012 draws to a close, we're taking stock of our progress and looking ahead to the agenda we've formulated for 2013.

### The Role of Funds in Financial Stability

Founded in the wake of the international financial crisis, ICI Global has made informing regulators and policymakers about the role of funds and fund managers in financial stability one of its top priorities. Much of the activity in this area has focused on the Financial Stability Board (FSB) and the International Organisation of Securities Commissions (IOSCO) and their initiatives addressing nonbank financial intermediation conducted through the capital markets. This activity, which includes the operation of money market funds and securities lending, is sometimes pejoratively (and incorrectly) labelled "shadow banking."

ICI Global has reached out vigorously to regulators and policymakers to emphasize the importance of market-based financing to the resilience and growth of national, regional, and global economies—and to ensure that they fully grasp the role and activities of funds in capital markets.

In particular, ICI Global has endeavoured to ensure that policymakers appreciate how money market funds work, the economic benefits that these funds bring, the reforms already implemented in different jurisdictions after the financial crisis, and the lack of justification for further bank-like regulations. In October 2012, ICI Global joined ICI, the European Fund and Asset Management Association, the Institutional Money Market Funds Association, and the Investment Funds Institute of Canada in convening [an international summit on money market funds](#) in Brussels to promote understanding among policymakers and market participants alike.

In the context of securities lending and repo, ICI Global recruited representatives of the FSB, New York Federal Reserve, Securities and Exchange Commission and the UK Financial Services Authority to participate in a securities lending and repo webinar to discuss in detail the proposed framework of reform.

In 2013, ICI Global will continue to focus on the role of funds in financial stability, particularly money market fund regulation and securities lending and repo proposals.

### Transnational Regulatory Developments

The cross-border impact of regulations—extraterritoriality—has become an acute problem for regulated funds. Extraterritoriality is the creation of policy by one governmental authority that, wittingly or unwittingly, affects an activity spanning national boundaries or an organisation operating in more than one jurisdiction. ICI Global has focused on several transnational developments that we expect to remain key areas in the year ahead.

- **European directives:** European authorities are pursuing [a number of initiatives](#) with transnational impact, including the fifth and sixth iterations of UCITS, the finalisation of the Alternative Investment Fund Managers Directive (AIFMD), and the reform of the Markets in Financial Instruments Directive (MiFID II). Accordingly, ICI Global has maintained its engagement with officials at the

European Commission, the European Parliament, and with national regulators on these and other policy efforts.

- **The Volcker Rule:** Through discussions with regulators and members around the world, ICI Global has worked to ensure that U.S. regulators and the international community understand the potential detrimental impact that [the Volcker Rule](#), if adopted as proposed, will have on regulated funds outside the U.S. and on global securities markets.
- **Foreign Account Tax Compliance Act (FATCA):** [FATCA](#) might serve as a model for tax compliance laws of other countries, so ICI Global has submitted comment letters, testified, and met extensively with responsible U.S. government officials to urge regulators to create workable rules. To help the international community understand FATCA and the model intergovernmental agreements that the U.S. Treasury developed to facilitate FATCA, ICI Global met with members, policymakers, and media in 10 leading fund jurisdictions in Europe, Africa, South America, and Asia. In addition, ICI Global recruited U.S. Treasury and OECD representatives to participate in a [FATCA webinar](#).

## Trading and Market Structure

Jurisdictions around the world face difficult questions about the rapidly evolving structure of their markets—most significantly, the impact of advancements in technology on trading. These and other questions demand continual close attention from the buy-side.

ICI Global has undertaken to provide that focus on behalf of regulated funds and their long-term investors. One critical objective is to ensure that major jurisdictions take a consistent approach to regulation, because many global managers operate closely linked trading operations in multiple jurisdictions. This past year ICI Global commented on numerous proposals emanating from IOSCO and policymakers in Europe and Asia, including [key aspects of MiFID II](#) in Europe; [IOSCO's consultation on market surveillance](#); and [the proposal concerning electronic trading from the Hong Kong Securities and Futures Commission](#). ICI Global also hosted its [inaugural market structure conference](#) in London during December.

As ICI Global advances its work on market issues, we hope in particular to expand the dialogue to include fund managers from all regions of the world.

## Role of Funds in Pensions and Long-Term Savings

As fiscal and demographic pressures increase, many countries are studying ways to enhance retirement security. ICI Global is working to highlight the effectiveness of defined contribution retirement savings plans and to demonstrate that regulated funds are uniquely positioned to serve investors in such plans.

To further its advocacy for funds as an important component of retirement savings, ICI Global is conducting comparative research on the pension systems from nine countries, examining significant aspects such as coverage, fee-reduction programs, participant financial education, changes to retirement ages, and more. Our research will help inform an ICI Global event—the [Global Retirement Savings Conference: The Role of Investment Funds](#)—scheduled for 26–27 June 2013 in Hong Kong.

## Giving Funds a Global Voice

Thanks to the active involvement of members and the support of leaders in the global fund community, ICI Global has emerged as a respected voice for funds on the international stage. In the years ahead, we look forward to continuing our work on behalf of regulated funds, their investors, and sponsors around the world.

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