FACT BOOK 2024

22ND EDITION

EFAMA

European Fund and Asset Management Association

TRENDS IN EUROPEAN INVESTMENT FUNDS

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Foreword

I am pleased to present the 2024 edition of EFAMA's Fact Book. Over the years, this publication has become the go-to resource for reliable data on the European investment fund industry. This year's Fact Book is once again freely available on EFAMA's website, ensuring its wealth of data is easily accessible to all stakeholders.

The Fact Book provides an in-depth analysis of the trends shaping the European fund industry over the past decade, with a special focus on the previous year. In 2023, we witnessed a positive turnaround in fund sales, with UCITS net sales bouncing back from significant net outflows in 2022.

This year is shaping up as a year of change. European elections in June will bring in a new European Parliament, with a new European Commission taking office in the autumn. In anticipation of these institutional changes, EFAMA has outlined the policy priorities of the asset management industry for the next 5 years. In reviewing this year's Fact Book, I have noted key insights that underline the importance of EFAMA's main policy recommendations.

Fact Book data shows that the share of US stocks in equity UCITS rose from 22% in 2013 to 44% in 2023. While this trend reflects the performance of US (arguably mega-cap) companies and results from investors' choices and asset managers acting in the best interest of their clients, it does raise the question of **Europe's competitiveness**. If the objective is to unlock the investment potential of savings to finance European companies, decisive actions are required to improve the competitiveness of European companies, cut red tape, encourage innovation and deepen the single market. This also applies to asset managers operating in the EU who are subject to very complex and sometimes inconsistent rules, ever-increasing compliance costs, unjustified gold plating and regulatory/ supervisory divergences.

EU household savings directed into deposits hit a five-year low in 2023 (EUR 169 billion), while retail investments in capital market instruments reached a record high (EUR 496 billion). Nevertheless, European retail investors still hold a disproportionate amount of deposits, constituting 42% of total financial assets in 2023. While the European Commission's proposed **Retail Investment Strategy** contains promising avenues to address this, certain elements, especially those on value-for-money benchmarks and inducements, may inadvertently discourage investments. To encourage EU savers to invest more, we need affordable quality financial advice, improved financial literacy, simpler and digital disclosures, as well as appropriate pension policies and tax incentives as shown in countries enjoying higher levels of retail participation.

Despite a market upswing, net inflows into SFDR Article 9 funds slowed down in 2023 compared to 2022, signalling that continuous investment in sustainable funds cannot be taken for granted. While the EU has championed sustainable finance, additional efforts are needed to finance the transition to a sustainable world. Consistency across existing **sustainable finance legislation**, simplifying SFDR sustainability disclosures, integrating transition finance into sustainable finance regulations, and providing easy access to reliable, standardised data on investee companies will help unlock the full potential of sustainable finance.

In closing, I commend the EFAMA research team for their unwavering dedication to the Fact Book. I also extend my sincere appreciation to our member associations for their invaluable contributions through country reports and national statistics. Lastly, heartfelt thanks to the Fact Book sponsors for their ongoing support.

Sandro Pierri
EFAMA President

Part 1

Recent Developments in the European Investment Fund Industry

Boxes

Abbreviations

AIF	Alternative Investment Fund
AIFMD	Alternative Investment Fund Managers Directive
AMLD	Anti-Money Laundering Directive
ARIS	Absolute Return Innovative Strategies
AuM	Assets under Management
BIS	Bank for International Settlements
CBF	Cross-Border Fund
CCPs	Central Counterparties
CMU	Capital Markets Union
CSDDD	Corporate Sustainability Due Diligence Directive
CSDR	Central Securities Depositories Regulation
CSRD	Corporate Sustainability Reporting Directive
CNAV	Constant Net Asset Value
EA	Euro area
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EET	European ESG Template
EFC	European Fund Classification
EIOPA	European Insurance and Occupational Pensions Authority
ELTIF	European Long-term Investment Funds
EMIR	European Market Infrastructure Regulation
EMT	European MiFID Template
EONIA	Euro OverNight Index Average
ESAs	European Supervisory Authorities
ESG	Environmental, Social, and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded Fund
EU	European Union
Euribor	Euro Interbank Offered Rate
DLT	Distributed Ledger Technology
DORA	Digital Operational Resilience Act
FASTER	Faster and Safer Relief of Excess Withholding Taxes
FSB	Financial Stability Board
FTT	Financial Transaction Tax
GDP	Gross Domestic Product
ICI	Investment Company Institute
ICPF	Insurance Corporations and Pension Funds
IDD	Insurance Distribution Directive
IFR/IFD	Investment Firm Regulation / Investment Firm Directive
IIFA	International Investment Funds Association
IMF	International Monetary Fund
IMMFA	Institutional Money Market Funds Association
IOSCO	International Organisation of Securities Commissions
KID	Key Information Document
LIBOR	London InterBank Offered Rate
LVNAV	Low Volatility Net Asset Value
MFI	Monetary Financial Institution
MiFID	Markets in Financial Instruments Directive
MIFIR	Markets in Financial Instruments Regulation
MMF	Money Market Fund
MMFR	Money Market Fund Regulation
NAV	Net Asset Value

NCA	National Competent Authority
NFRD	Non-Financial Reporting Directive
OECD	Organisation for Economic Co-operation and Development
OFI	Other Financial Intermediaries
OTC	Over-the-counter
PAI	Principal Adverse Impacts
PDCNAV	Public Debt Constant Asset Value
PEPP	Personal European Pension Product
PRIIPs	Packaged Retail Investment and Insurance-based Products
QIF	Qualifying Investor Funds
RIS	Retail Investment Strategy
SFDR	Sustainable Financial Disclosure Regulation
SIF	Specialised Investment Fund
SME	Small and medium-sized enterprises
SNB	Swiss National Bank
SRD	Shareholders Rights Directive
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
VAT	Value-added Tax
VNAV	Variable Net Asset Value
WFE	World Federation of Exchanges

CHAPTER 1: KEY FINDINGS AND FIGURES

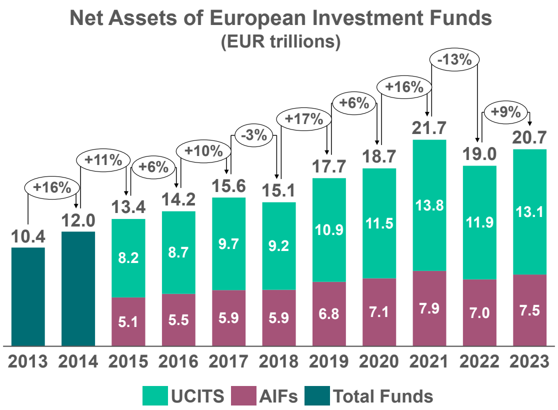
THE EUROPEAN INVESTMENT FUND INDUSTRY AT A GLANCE

Net assets
at end 2023

EUR 20.7 trillion

UCITS
EUR 13.1 trillion

AIFs
EUR 7.5 trillion

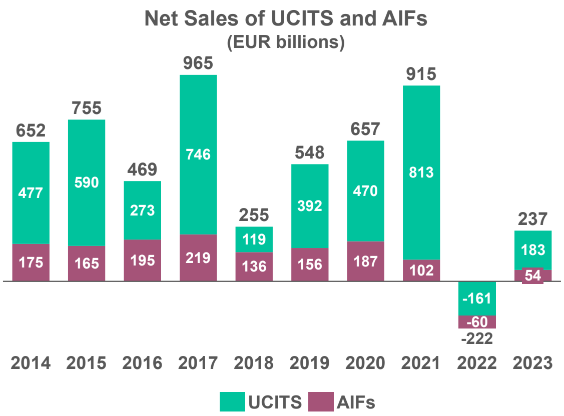


Net sales
in 2023

EUR 237 billion

UCITS
EUR 183 billion

AIFs
EUR 54 billion

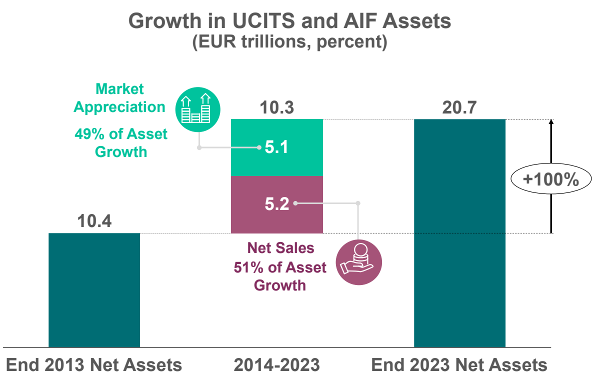


Net asset increase
since end 2013

EUR 10.3 trillion

Market appreciation
EUR 5.1 trillion

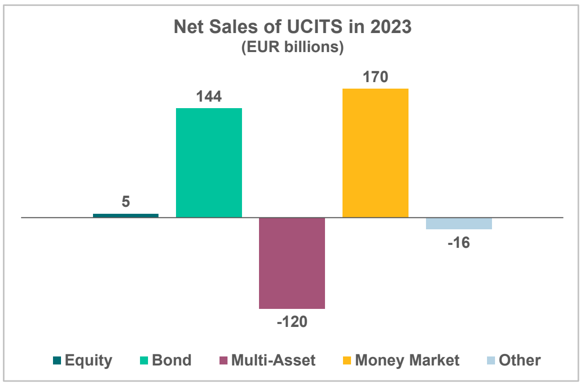
Net sales
EUR 5.2 trillion



WHAT HAPPENED IN THE UCITS MARKET IN 2023?

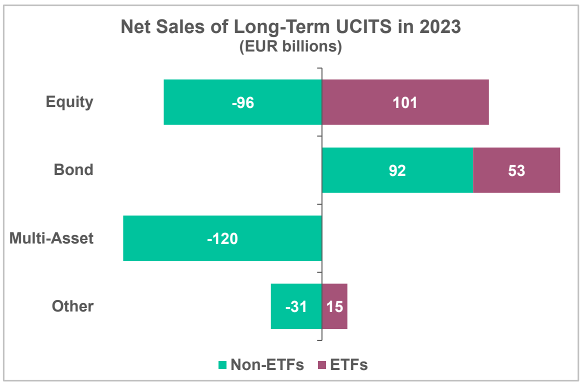
The UCITS market was marked by robust net inflows into MMFs and bond funds, along with net outflows from multi-asset funds.

Net sales of fixed-income UCITS in 2023 were strongly influenced by interest rate evolutions. Net inflows into bond UCITS were fuelled by the pause in central bank rate hikes and expectations of rate cuts in 2024. MMF inflows were primarily driven by short-term interest rates. Multi-asset UCITS experienced their first net outflows in ten years.



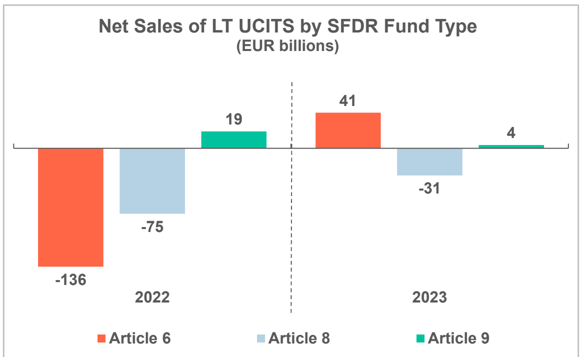
ETFs had a record-breaking year, attracting EUR 169 billion in net sales.

The booming net inflows into ETFs sharply contrast with the overall net sales of long-term UCITS, which totalled only EUR 14 billion. This meant that non-ETF long-term UCITS saw net outflows of EUR 155 billion throughout 2023. This disparity was particularly evident in the equity market, where equity ETFs attracted EUR 101 billion in net inflows, whereas non-ETF equity UCITS experienced net outflows of EUR 96 billion.



SFDR Article 9 fund sales slowed down and Article 6 funds reversed course.

Net sales of SFDR Article 9, 'dark green', funds, which had demonstrated resilience during the market downturn in 2022, declined during 2023. Conversely, Article 6 funds saw a turnaround, attracting EUR 41 billion in net inflows. These trends were driven by the rising popularity of ETFs in 2023. Most ETFs track broad indices; since not all stocks or bonds in these indices meet the SFDR sustainability criteria, such ETFs are typically classified as SFDR Article 6 funds by default.

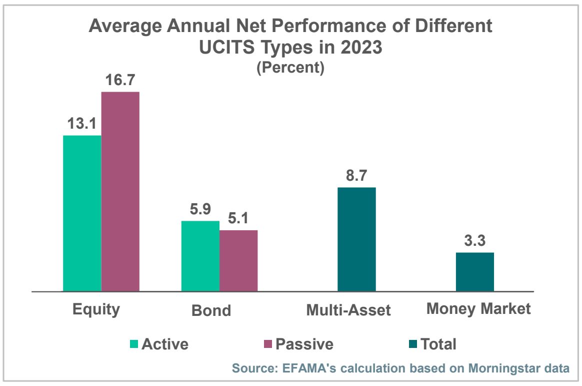


Source: EFAMA's calculation based on Morningstar data

WHAT HAPPENED IN THE UCITS AND AIF MARKETS IN 2023?

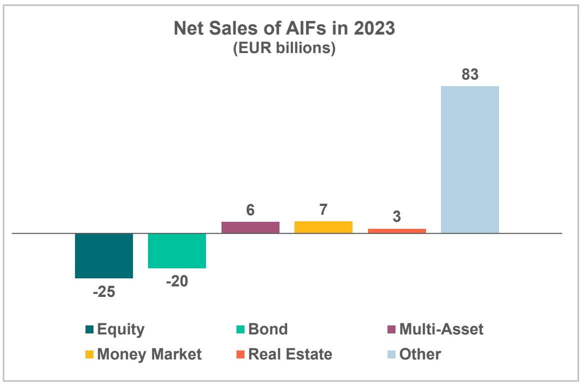
The average annual performance of all major types of UCITS was positive.

Driven by robust stock market growth, equity UCITS led the way in 2023, delivering an average return of 16.7% for passive funds and 13.1% for active. Bond UCITS also performed well, with active funds outperforming passive. Multi-asset funds achieved an average return of 8.7%, while MMFs yielded 3.3%. With the EU inflation rate at 3.4% for the year, most UCITS proved to be an excellent investment choice in 2023.



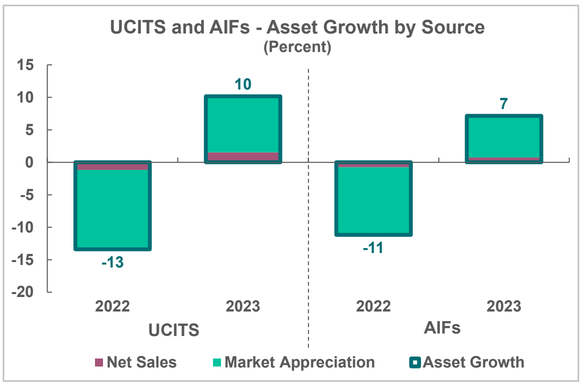
Net sales of AIFs returned to positive territory but remained relatively muted.

Net inflows into AIFs reached EUR 54 billion in 2023, compared to net outflows of EUR 60 billion in 2022. The significant outflows during 2022 were largely due to Dutch and Danish pension funds shifting assets from AIF wrappers to segregated mandates, in response to IFR/IFD prudential rules. While this trend persisted into 2023, it slowed somewhat. As in previous years, the bulk of net inflows were concentrated in other AIFs.



UCITS net assets increased by 10% in 2023, while AIFs grew by 7%.

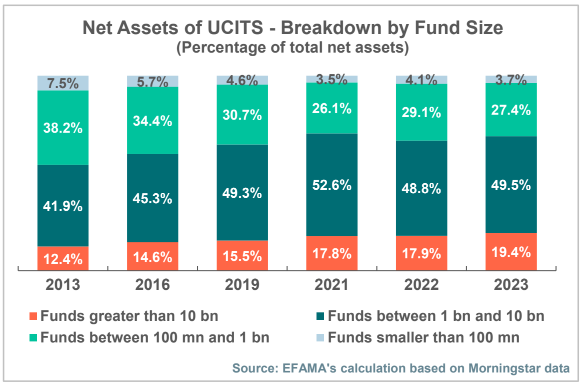
Over the past two years, the fluctuations in net asset growth of both UCITS and AIFs were largely influenced by market appreciation or depreciation effects. Net sales had minimal impact on these changes, contributing just 1.4% to the UCITS asset growth and 0.8% to the net asset increase of AIFs in 2023.



WHAT ARE THE LONG-TERM TRENDS IN THE EUROPEAN FUND INDUSTRY?

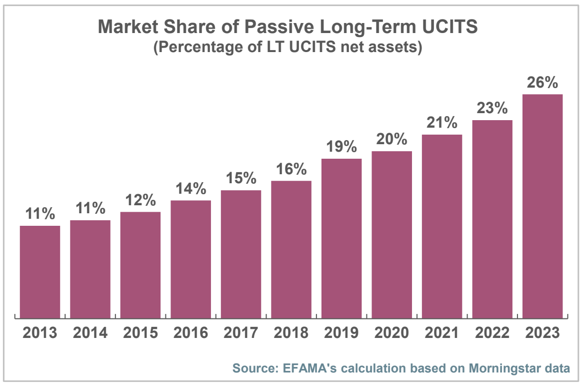
Large funds are becoming increasingly important in the UCITS market.

It is often argued that Europe has too many small funds that fail to fully leverage economies of scale in order to manage fixed costs effectively. Indeed, there were around 12,000 UCITS with less than EUR 100 million under management at end 2023. However, these small funds represented only 3.7% of the total UCITS market size, and their share is gradually declining. Meanwhile, the shares of funds with more than EUR 1 billion and more than EUR 10 billion in assets under management are steadily increasing.



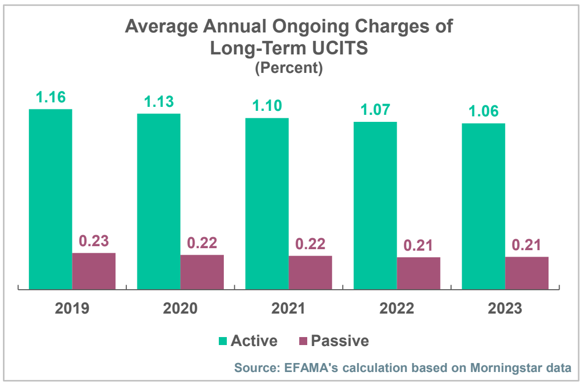
Passive UCITS are steadily gaining market share.

The market share of passive UCITS rose from 11% in 2013 to 26% at end 2023. The surge in popularity of passive funds is due to a combination of lower costs and increasing investor demand for ETFs. ETFs, which are almost exclusively passive funds, attracted net new money as a result of their flexibility, liquidity and cost efficiency.



Over the past five years, the average cost of long-term UCITS has consistently decreased.

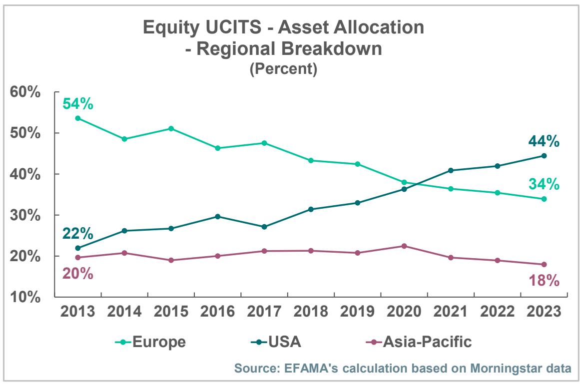
During 2019-2023, the average cost of active long-term UCITS decreased from 1.16% to 1.06%, while the cost of passive long-term UCITS declined from 0.23% to 0.21%. This trend is expected to persist, driven by heightened transparency for fund fees and intensified competition, particularly between active and passive fund managers.



HOW HAS THE ASSET ALLOCATION OF FUNDS EVOLVED IN RECENT YEARS?

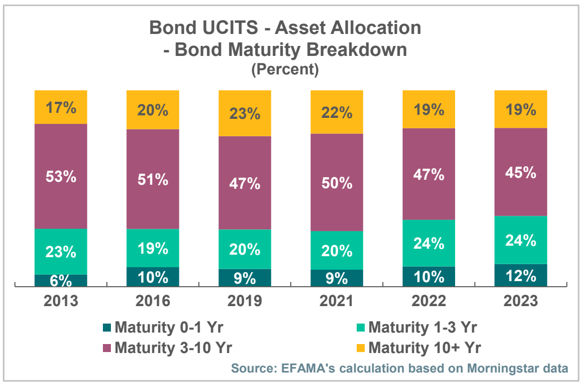
The share of US stocks in the asset allocation of equity UCITS has risen sharply since 2013.

In 2023, US stocks grew to 44% of the asset allocation of equity UCITS, doubling from the 22% of 2013. This shift towards US stocks can in part be attributed to US stock markets outperforming those in Europe in recent years, particularly with the notable success of large US technology stocks. Another contributing factor was the strong demand for funds tracking global indices, which have considerable exposure to US stocks.



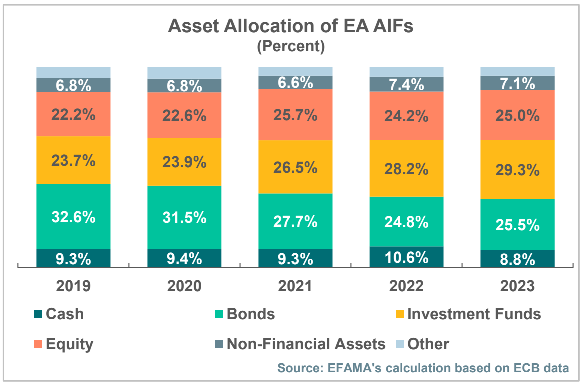
In recent years, bond UCITS shifted their asset allocation towards shorter-term securities.

The proportion of bonds with a maturity of less than one year in the holdings of bond UCITS increased from 6% in 2013 to 12% in 2023. Concurrently, there was a decline in the share of bonds with maturities between three and ten years from 53% in 2013 to 45% in 2023. The flattening of yield curves in 2022 and their inversion in 2023 were pivotal factors in this adjustment.



AIFs have gradually increased the proportion of investment funds in their asset allocation.

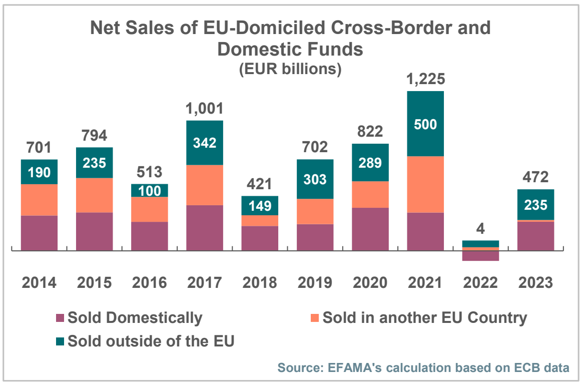
While the share of directly held bonds in the asset allocation of euro area (EA) AIFs declined up to 2022, allocations to directly held equity fluctuated in line with stock market trends. Conversely, the share of investment funds held by AIFs rose steadily in recent years. This trend suggests that AIF managers are increasingly relying on the expertise of other fund managers and making more use of passive funds and ETFs in their asset allocation decisions.



WHO INVESTS IN UCITS AND AIFS?

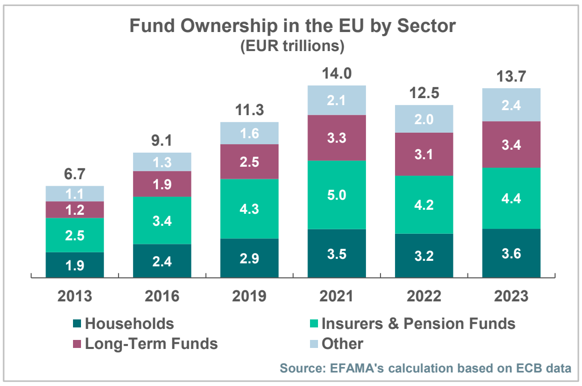
Investors from outside Europe are increasingly significant clients for the European investment fund industry.

Investment funds domiciled in the EU are sold either domestically or cross-border, both within the EU or to investors outside it. Over the past five years, net flows of funds outside the EU averaged EUR 276 billion, surpassing both the EUR 174 billion for cross-border funds sold in the EU and EUR 196 billion for domestic funds.



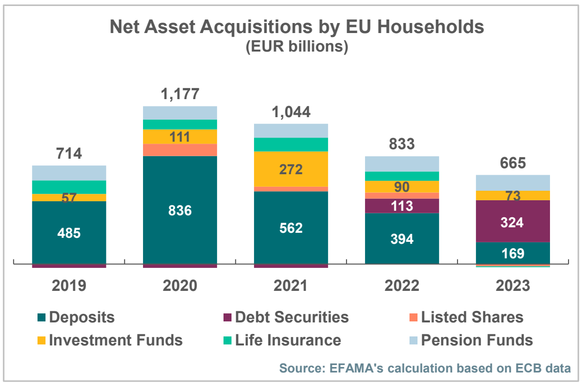
Insurers and pension funds are the primary fund investors in the EU, although households and long-term funds are also important.

Insurers and pension funds held around EUR 4.4 trillion of UCITS and AIF net assets at end 2023, representing 32.3% of total fund ownership in the EU. Households were the second-largest investors, with fund holdings of EUR 3.6 trillion (25.9%), compared to EUR 1.9 trillion in 2013. Long-term investment funds ranked as the third-most prominent investor category, with EUR 3.4 trillion worth of funds (24.5%) at end 2023.



EU retail investors continued to buy investment funds in 2023, but their focus shifted towards debt securities.

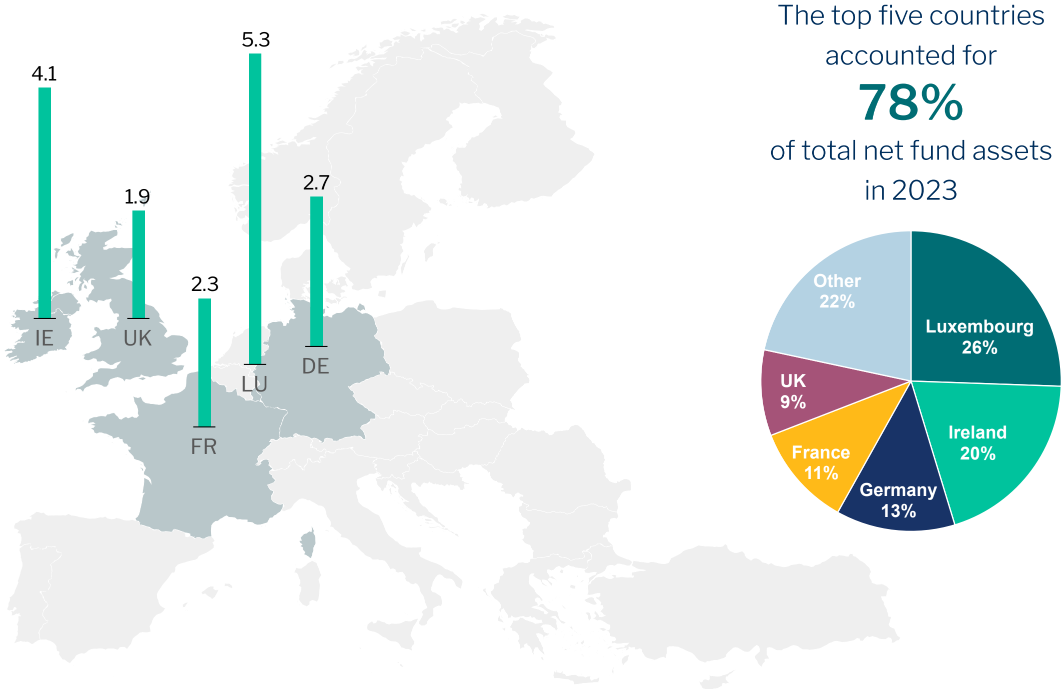
Households in the EU acquired a net EUR 73 billion of funds in 2023, the lowest level in the past four years. Investment funds faced direct competition from government bond issuances in several EU countries, with households acquiring a net total of EUR 324 billion in debt securities during 2023. Given the reluctance among banks to raise interest rates on savings accounts, national governments in countries such as Italy and Belgium successfully attracted domestic retail savers by offering higher-yielding bond issuances.



WHERE ARE EUROPEAN FUNDS DOMICILED?

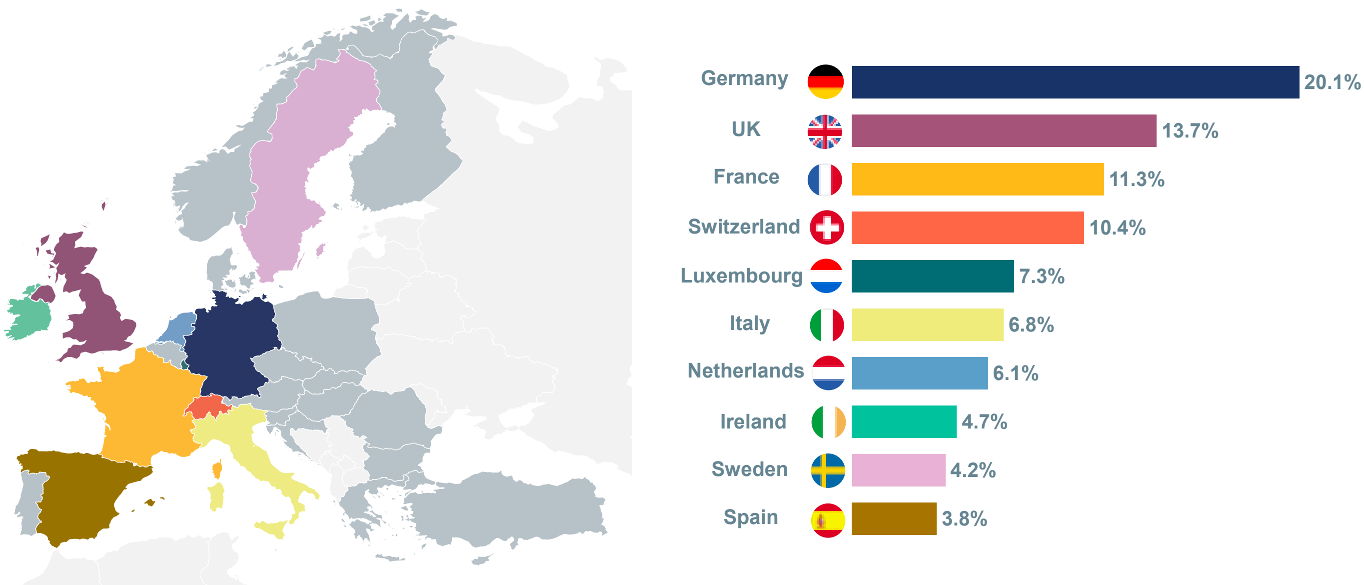
Top Country Shares in UCITS and AIFs Net Assets at End 2023

(EUR trillions, percent)



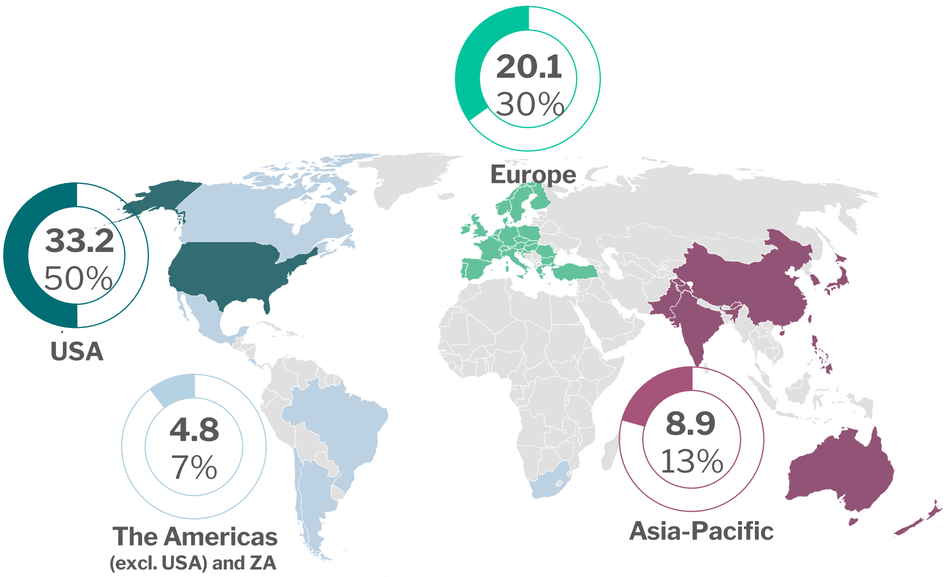
WHO IS HOLDING FUNDS IN EUROPE?

Top Country Shares of Fund Ownership at End 2023



WHERE ARE FUNDS HELD AND SOLD ACROSS THE WORLD?

Net Assets of Investment Funds at End 2023
(EUR trillions, percent)



Worldwide Total Net Assets

EUR 67 trillion

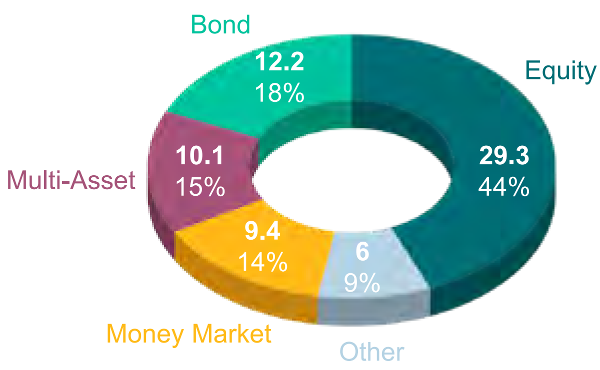
11% of net asset growth since end 2022

Net Sales of Investment Funds
(EUR billions)

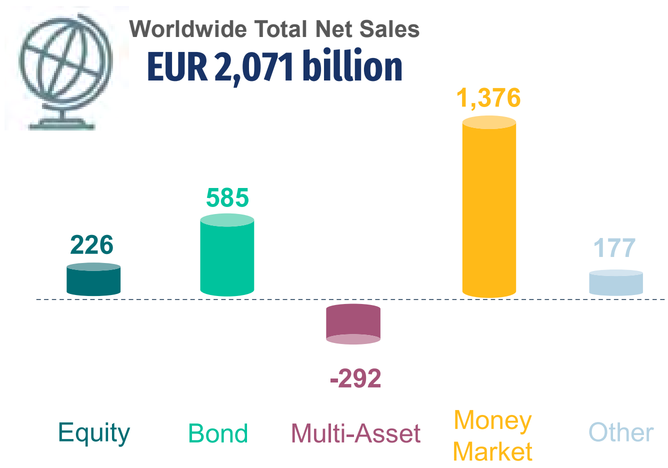
	2022	2023
USA	-163	1,312
Europe	-186	264
Asia-Pacific	362	484
The Americas (excl. USA) and ZA	26	11
Worldwide Total Net Sales	40	2,071

WHAT HAPPENED IN THE GLOBAL FUND MARKET IN 2023?

Net Assets of Investment Funds by Type
(EUR trillions, percent)



Net Sales of Investment Funds by Type
(EUR billions)



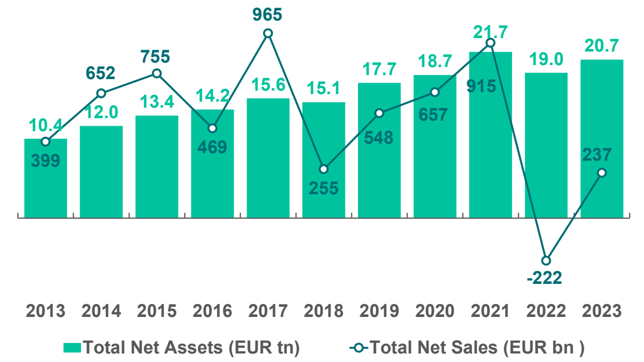
CHAPTER 2: INVESTMENT FUNDS IN EUROPE BY FUND DOMICILE

2.1 OVERVIEW

This chapter provides an overview of the evolution of the European investment fund industry.[i] It examines the trends in net asset growth and net sales of funds - both UCITS and AIFs - domiciled in Europe and in individual European countries. It also delves deeper into the cost, performance and asset allocation of certain fund types.

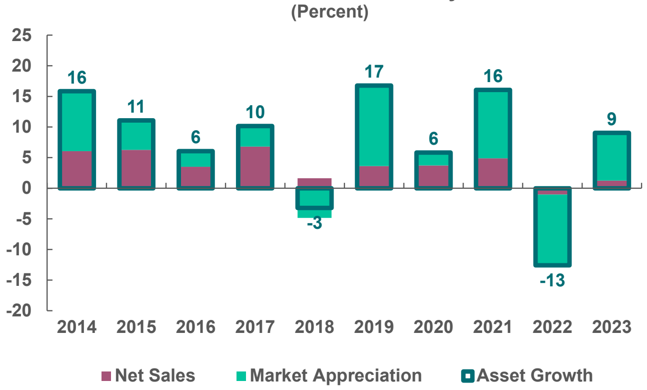
Net assets and net sales of funds. Compared to the rather grim year 2022, marked by a decline in net assets (12.6%) and net fund outflows (EUR 222 billion), 2023 saw a complete turnaround. Net assets increased by 9.1%, ending the year at EUR 20.7 trillion. Net sales also reversed, from net outflows of EUR 222 billion in 2022 to net inflows of EUR 237 billion over the full year 2023.

2.1: Total Net Assets and Net Sales of European Investment Funds



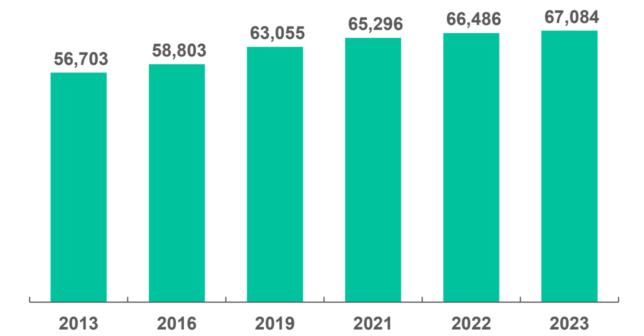
Breakdown of net asset growth. We can break down the yearly net asset growth of European funds in order to separate the individual effects of net sales and market appreciation. In the three most recent years, market appreciation has had a substantially more significant impact on total asset growth than net sales.

2.2: Total Funds Asset Growth by Source
(Percent)



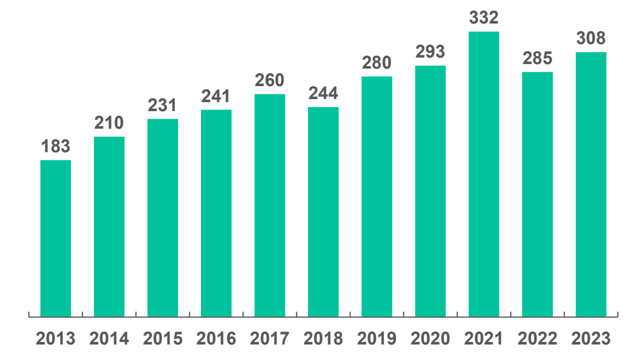
Number of investment funds. The number of European-domiciled funds continued to increase, with a net increase of 598 new funds over the year, ending 2023 on a total of 67,084 funds. Since end 2013, the number of funds has increased by 18%.

2.3: Number of European Investment Funds

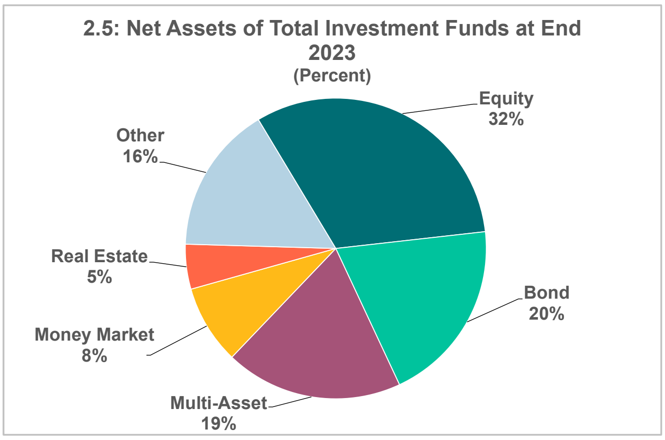


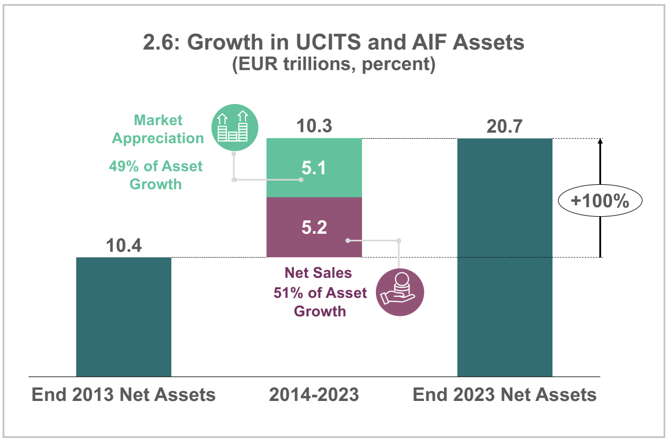
Average fund size. Despite the growth in the number of funds, the average size of a European investment fund has steadily increased over the last decade, as net sales and market appreciation outpaced the creation of new funds. Since 2013, the average fund size grew from EUR 183 million to EUR 308 million at end 2023.

2.4: Evolution of Average Fund Size in Europe
(EUR millions)



Breakdown by type of fund. Investment funds are classified by the nature of their principal investments. At end 2023, equity funds represented 32% of total European fund net assets, followed by bond funds at 20%, multi-asset funds at 19%, other funds at 16%, MMFs ('Money Market Funds') at 8% and real estate funds at 5%.





Ten-year asset growth. Net assets of total European funds have almost doubled over the past ten years (+99.6%). European funds attracted EUR 5.2 trillion in net new inflows between 2014-2023. These cumulative net sales represented almost 51% of the total net asset growth of European investment funds over that period. Market appreciation of EUR 5.1 trillion accounted for the remaining increase.

Country shares in 2013 and 2023. The table below shows the size of the investment fund industry in both 2013 and 2023. It compares the evolution of market share for each fund domicile. The same five countries - Luxembourg, Ireland, Germany, France and the UK - continue to hold the largest market shares in Europe. Combined, their net assets amounted to around 78% of European investment fund assets in 2023, slightly higher than the 2013 combined share (77%).

2.7: Net Assets of Nationally Domiciled UCITS and AIFs [1]
(EUR billions, percent)

Members	Total Assets 2023	Market Share 2023	Total Assets 2013	Market Share 2013	Members	Total Assets 2023	Market Share 2023	Total Assets 2013	Market Share 2013
Europe	**20,685.8**	**100%**	**10,361.8**	**100%**	Finland	149.4	1%	75.1	1%
Luxembourg	5,285.0	26%	2,615.4	25%	Liechtenstein	126.7	1%	30.5	0.3%
Ireland	4,082.7	20%	1,343.9	13%	Poland	73.8	0.4%	45.0	0.4%
Germany	2,653.4	13%	1,404.3	14%	Turkey	67.7	0.3%	23.7	0.2%
France	2,276.9	11%	1,543.0	15%	Hungary	36.6	0.2%	13.5	0.1%
United Kingdom	1,909.4	9%	1,105.2	11%	Portugal	33.1	0.2%	24.7	0.2%
Switzerland	883.0	4%	360.2	3%	Czech Republic	26.8	0.1%	7.2	0.1%
Netherlands [2]	826.3	4%	626.8	6%	Malta	19.8	0.1%	9.4	0.1%
Sweden	584.6	3%	200.2	2%	Greece	18.5	0.1%	7.2	0.1%
Italy	373.4	2%	217.0	2%	Slovakia	9.6	0.05%	4.6	0.04%
Spain	364.1	2%	185.5	2%	Romania	7.1	0.03%	4.5	0.04%
Denmark	275.4	1%	185.9	2%	Cyprus	6.3	0.03%	-	-
Austria	211.4	1%	149.4	1%	Slovenia	5.5	0.03%	1.9	0.02%
Belgium	201.7	1%	96.3	1%	Croatia	2.8	0.01%	2.0	0.02%
Norway	173.1	1%	79.1	1%	Bulgaria	1.4	0.01%	0.4	0.004%

(1) UCITS and AIF combined for 2023. UCITS and Non-UCITS combined for 2013.

(2) 2013 Data for the Netherlands is estimated on the basis of ECB data.

2.2 UCITS AND AIFS

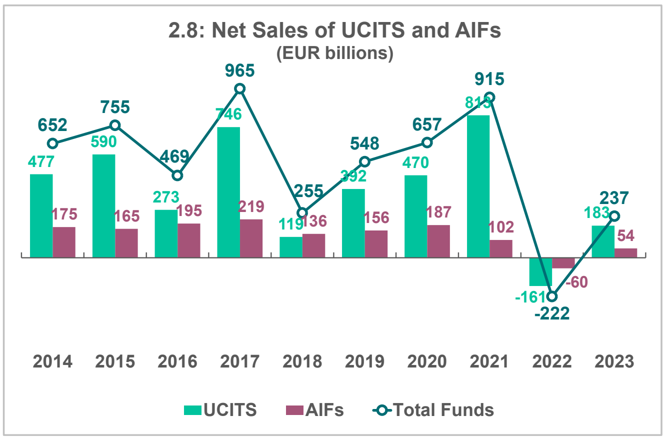
UCITS and AIFs. EFAMA classifies European investment funds by the EU Directive that regulates their activities; that is, the UCITS or AIFM Directive.

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

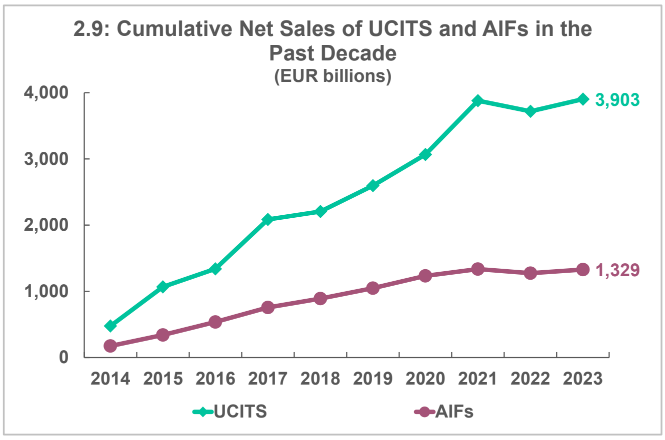
The AIFM Directive ('Alternative Investment Fund Managers') created a framework for all investment funds regulated in accordance with specific national requirements, but not fulfilling the requirements of the UCITS Directive. The AIFMD also established a 'UCITS-like' regime, with authorisation and ongoing supervision as well as a passport for distributing AIFs to professional investors across Europe.[ii]

UCITS and AIF market shares. UCITS funds represented around 66% of the total fund market in 2013. By 2018, UCITS accounted for only 61% of the total, mainly due to the reassignment of around EUR 800 billion of net assets that were shifted from UCITS to AIFs when the AIFMD came into force. At end 2023, the share of UCITS had again increased, to 64%, due to a combination of stronger asset growth and higher net sales.

Net sales of UCITS and AIFs. European investment funds returned to positive territory in 2023. However, net sales (EUR 237 billion) remained relatively subdued compared to the average of the past decade (EUR 523 billion). In the UCITS market, the negative net sales in 2022 (EUR 161 billion) were primarily driven by the swift tightening of monetary policy. In 2023, there was a slowdown - and in some cases even a gradual reversal - of the restrictive monetary policy. This led to net UCITS sales turning positive once again (EUR 183 billion). The net flows of AIFs also reversed, moving from net outflows (EUR 60 billion) in 2022 to net inflows of EUR 54 billion in 2023. The 2022 net outflows were not the result of turbulent markets, but rather stemmed from Dutch and Danish pension funds restructuring their AIF wrappers in response to the IFR/IFD prudential rules. This trend seems to have slowed somewhat in 2023.



Cumulative net sales. UCITS have clearly collected the highest cumulative net sales over the past ten years, reaching EUR 3,903 billion, primarily driven by robust net sales in 2014-2015, 2017 and 2020-2021. In comparison, cumulative inflows to AIFs over the same period amounted to EUR 1,329 billion. Unlike the more volatile UCITS flows, net sales of AIFs remained relatively stable, particularly during 2014-2020. This stability can be attributed to sustained demand from institutional investors, who typically maintain longer investment horizons and are less influenced by short-term market fluctuations.

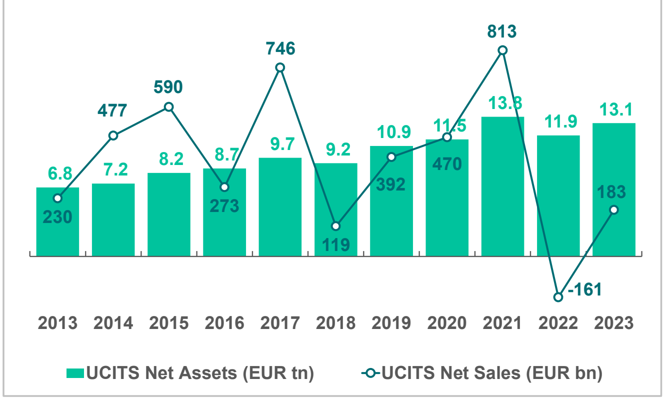


2.3 THE UCITS MARKET

2.3.1 Overview[iii]

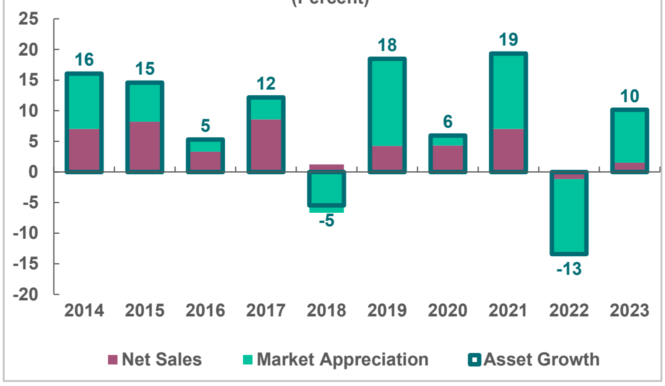
Net assets and net sales of UCITS. Trends in the net assets and net sales of UCITS typically mirror the movements in the stock and bond markets. Years with robust performances of capital markets often see high net fund sales and significant net asset growth, as was the case in 2017 and 2021. Conversely, 2022 was a difficult year, as both bond and stock markets fell, resulting in net outflows. Capital markets recovered in 2023, resulting in net inflows of EUR 183 billion.

2.10: Net Assets and Net Sales of UCITS



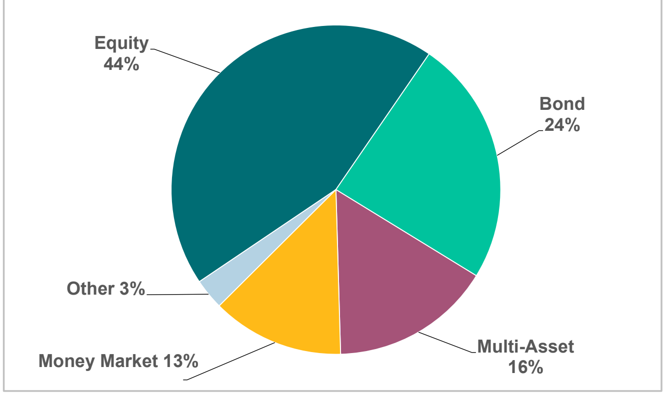
Breakdown of net asset growth. Breaking down the yearly net asset growth allows for differentiation between the effect of net sales and market appreciation. Net asset of UCITS grew by almost exactly 10% in 2023, a solid recovery following the 13% decrease the year before. The main reason was the brisk upswing in both debt securities and listed equity. Market appreciation alone accounted for 8.6% of the 10% total asset growth.

2.11: UCITS Asset Growth by Source
(Percent)

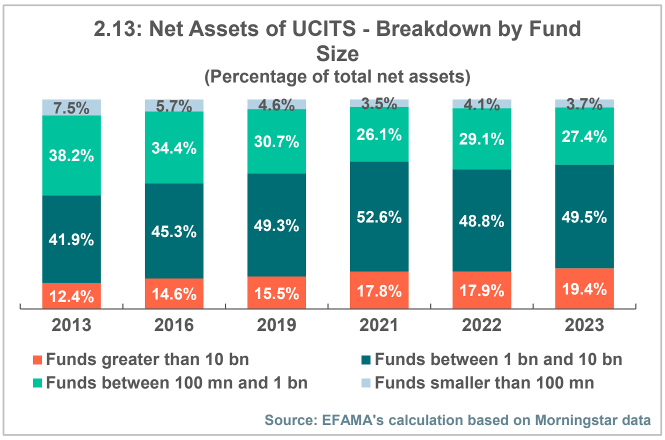


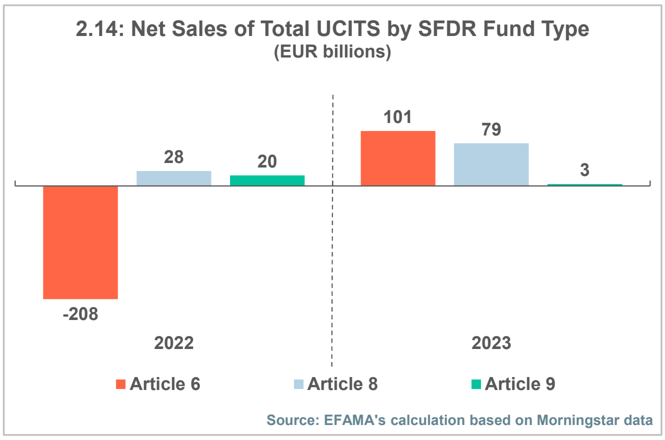
Breakdown by type of UCITS. At end 2023, equity funds represented the largest proportion, with 44% of UCITS net assets. Following were bond funds, with a market share of 24%. Multi-asset funds (16%) and money-market funds (13%) occupied third and fourth positions, respectively. The remaining 3% of assets were other UCITS.

2.12: Net Assets of UCITS at End 2023



Breakdown by fund size. The UCITS market, when measured by net assets, can be further broken down by the respective sizes of individual funds.[iv] The European fund industry often faces criticism for having too many small funds, which tend to impose higher costs on investors due to a lack of economies of scale. Morningstar data reveals that by end 2023, more than 12,000 UCITS were smaller than EUR 100 million, with only 11,300 funds larger. However, when considering the proportion of these smaller funds in the total net assets of UCITS, it becomes evident that funds smaller than EUR 100 million represented less than 4% of the total in 2023. Furthermore, the market share of funds below EUR 100 million has dwindled consistently over the past decade, declining from 7.5% in 2013 to 3.7% in 2023. At the same time, funds larger than EUR 1 billion and larger than EUR 10 billion saw their market shares increase significantly, signalling a trend of investors gravitating towards these larger funds.

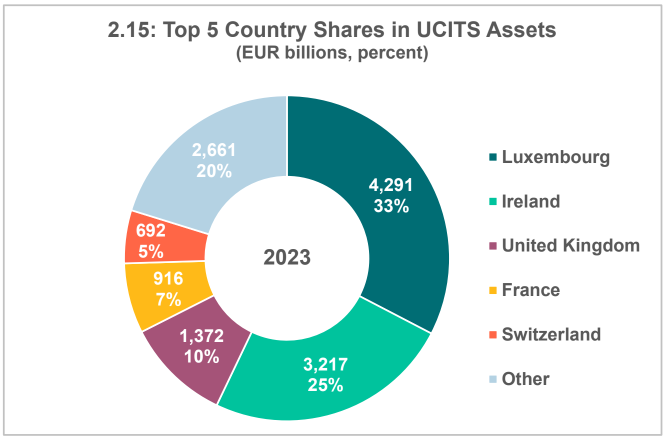




The Sustainable Finance Disclosure Regulation (SFDR) was introduced in March 2021, establishing a set of sustainability-related disclosure obligations for financial market participants, including financial advisers. Among other obligations, the SFDR requires asset managers to make specific sustainability-related disclosures for all funds, according to Articles 6, 8 and 9. Although it was not the regulators' intention for these Articles to be treated as product labels, in practice these split the UCITS universe into three categories. Each category is named after the relevant SFDR Article: Article 8 funds are those with sustainability characteristics, Article 9 funds are those with explicit sustainability objectives and Article 6 funds have neither sustainability characteristics nor explicit sustainability objectives.

SFDR Article 8 and 9 funds - Net sales in 2023. Breaking down the net sales by SFDR Articles shows the remarkable reversal in net sales of SFDR Article 6 funds. These went from sizable net outflows in 2022 to strong net inflows in 2023. This was due to the 2023 success of ETFs (see section 2.3.8), which are predominantly Article 6 funds. SFDR Article 8 funds also registered solid net inflows over the year 2023, but this was mainly due to strong net inflows in Article 8 MMFs (see section 2.3.6). Article 9 funds performed well during a difficult 2022, but demand slowed in 2023.

The top five domiciles for UCITS. Luxembourg (33%) was the largest domicile at end 2023, followed by Ireland (25%), the UK (10%), France (7%) and Switzerland (5%).[v] Combined, these countries accounted for 80% of total UCITS net assets in 2023



Net assets of UCITS by domicile. The following table (2.16) shows the net assets and growth rate of UCITS per domicile at end 2023, as well as the market shares of each country of domiciliation.[vi] Given the overall increases in both bond and equity valuations during 2023, it is no surprise that all 29 European domiciles registered a rise in net assets. Most domiciles saw increases ranging between 5.0% and 18.5%. Six countries had even higher increases; Greece registered the highest net asset growth in 2023 (58%), followed by Turkey (42%) and Poland (40%). The Czech Republic, Hungary and Slovenia also saw growth rates above 20%. The strong growth in these domiciles was due to a combination of exceptionally high net sales and - in some cases - favourable exchange rate evolutions. Luxembourg registered the lowest net asset growth of the year (5.2%), as it experienced substantial net outflows.

Net sales of UCITS by domicile. Some 23 European domiciles registered net inflows in 2023. Ireland accounted for the highest net sales (EUR 177 billion), followed by Switzerland (EUR 34 billion) and France (EUR 23 billion). Substantial net inflows were also recorded in Turkey (EUR 16 billion), Spain (EUR 16 billion) and Sweden (EUR 13 billion).

In addition, nine countries - Germany, Italy, Norway, Belgium, Czech Republic, Finland, Greece, Denmark and Poland - saw net inflows above EUR 2 billion. Only six domiciles registered net outflows over the year. Luxembourg accounted for the bulk of net outflows in 2023 (EUR 86 billion), followed by the UK (EUR 44 billion).

2.16: Net Assets and Net Sales of UCITS by Country (1)

Country	Net Assets of Nationally Domiciled UCITS at End 2023			Net Sales of Nationally Domiciled UCITS	
	EUR bn	Market Share	Growth Rate	in 2023, EUR bn	Accumulated 2019 - 2023
Austria	97.6	0.7%	7.6%	0.3	15.3
Belgium	200.2	1.5%	10.0%	4.0	26.4
Bulgaria	1.3	0.01%	8.9%	0.04	0.4
Croatia	2.3	0.02%	5.7%	0.1	-0.4
Cyprus	0.5	0.004%	12.9%	0.001	0.2
Czech Republic	24.1	0.2%	28.5%	3.6	9.5
Denmark	173.1	1.3%	10.0%	2.6	28.0
Finland	131.1	1.0%	10.9%	3.5	9.2
France	915.8	7.0%	9.5%	23.1	18.9
Germany	487.2	3.7%	11.7%	5.8	48.2
Greece	12.9	0.1%	57.8%	3.3	6.0
Hungary	1.6	0.01%	24.2%	0.02	-0.2
Ireland	3,217.4	24.5%	14.3%	177.4	922.4
Italy	251.2	1.9%	10.0%	6.0	-3.5
Liechtenstein	34.6	0.3%	9.3%	-2.2	0.002
Luxembourg	4,291.3	32.6%	5.2%	-85.9	288.1
Malta	2.9	0.02%	5.7%	-0.1	0.05
Netherlands	81.9	0.6%	15.5%	-0.3	-4.2
Norway	164.5	1.3%	4.2%	4.6	28.5
Poland	28.6	0.2%	39.5%	2.4	-1.1
Portugal	17.9	0.1%	9.4%	0.2	6.5
Romania	3.5	0.03%	16.2%	0.2	-0.9
Slovakia	6.5	0.05%	8.9%	-0.1	1.0
Slovenia	4.8	0.04%	21.6%	0.3	1.2
Spain	326.4	2.5%	13.1%	15.8	68.4
Sweden	557.5	4.2%	18.5%	13.2	58.5
Switzerland	692.4	5.3%	18.5%	33.6	173.2
Turkey	48.6	0.4%	42.0%	16.2	41.4
United Kingdom	1,371.9	10.4%	7.8%	-44.3	-42.7
Europe	**13,149.6**	**100.0%**	**10.2%**	**183.4**	**1,698.2**

(1) Funds domiciled in Switzerland, Turkey and the United Kingdom that fulfill the UCITS criteria are classified as UCITS.

Box 1
How tweaking SFDR could make sustainability less of a puzzle and more of a plan

Author: **Anyve Arakelijan**

EFAMA considers the Sustainable Finance Disclosure Regulation (SFDR), and its accompanying technical standards, essential elements of a strong and ambitious framework for sustainable investing. While the Regulation has brought about several benefits, particularly in terms of transparency, it has yet to realise its full potential for strengthening investor protection and steering capital toward sustainable activities.

The revision of SFDR provides a good opportunity to meet the Regulation's intended objectives. Our recommendations focus on refining SFDR to be more investor-centric, as well as strengthening its synergies with existing and upcoming rules. We reiterate our full support for enhancing comparability for end investors, holding market participants accountable and avoiding greenwashing. Our goal is to ensure that the disclosures are easily accessible and provide trustworthy information, striking a balance between meeting investors' needs and adhering to practical industry standards.

It is therefore of utmost importance that the future SFDR rules are carefully calibrated and strike an appropriate balance between enhanced transparency for sustainability-minded investors and a practical framework for the industry.

We make the following specific recommendations.

A more user-friendly disclosure regime

Certain questions mandated by SFDR form a barrier to understanding the ESG strategy employed in their investments. The current emphasis of the disclosures on ensuring comparability sometimes overshadows meaningful disclosures. In addition, the inherently subjective nature of ESG factors further complicates comparability, highlighting the need to shift our focus towards information that is genuinely meaningful and valuable for investors. We believe this can be achieved by - among other measures - rationalising the disclosure requirements and simplifying the documentation, using a uniform template for financial products with sustainability claims and replacing the detailed disclosures on the website with less information on financial market participants' (FMP) methodologies.

If broader transparency on sustainability-related issues through quantitative indicators or all financial products is being considered, we reiterate the importance of simplified disclosures with keeping the focus on a small number of key sustainability indicators that are comparable across different markets and potentially different asset classes. This way, investors will not be bombarded with information they may not necessarily need for making informed investment decisions.

Categorisation system for financial products

The fact that SFDR Articles 8 and 9 have been used as de facto labels - despite their intended role as disclosures – provides a compelling indicator of the market's clear demand for a categorisation system. We believe that clear and deliberate categories, characterised by clear names, would offer simplicity and be intuitively understood by investors. In turn, such categorisation would provide investors with the confidence to rely on these categories as quality labels. Those wishing deeper insights can delve into the investment strategy to comprehend the approach used to attain the objective.

We support establishing a voluntary product categorisation driven by intentionality. These category-agnostic criteria should include the following:

- The product intention needs to be clearly articulated in the investment objective and/or investment strategy/policy.
- The ESG strategy employed to achieve intention needs to be explained, including how stewardship forms part of the product attaining its intention.
- Rigorous and evidence-based KPIs should be specified, to measure whether the product is attaining its intention and ambition.

We support the three product categories, based on their intentionality, as outlined below.

1. Financial products with the intention of contributing positively to environmental/social objectives.

   Here, the criteria for the level of ambition are: making a predefined, measurable, positive contribution to either environmental and/or social objectives, as defined in the specific product terms. The broader term 'contribution' should encompass both impact-generating and impact-aligned investments.

   This category refers to products that offer targeted and measurable sustainability solutions that affect people and/or the planet, such as investments in firms generating and distributing renewable energy or in companies building social housing or regenerating urban areas.

   It can, among others, include environmental products with an EU Taxonomy-alignment or products investing in green bonds, green infrastructure, green equity or impact-investing funds relating to the environment. It also typically refers to social products investing in social bonds or impacting on investing funds relating to social.

   In the case of impact products, alignment with an impact-investing framework (such as, for example, GIIN, Operating Principles for Impact Management (OPIM)) can be considered relevant criteria.

2. Financial products with the intention of transitioning.

   Here, the criteria for the level of ambition are facilitating sustainable transition and measuring the relevant progress. Measurability should be based on sustainability indicators stipulated as binding in the product terms. Demonstrable improvements (in relation to the chosen KPIs) should not be on a year-to-year basis but rather on improvement over time.

   This approach typically refers to environmental products such as net zero-aligned funds, transition-linked bonds, sustainability-linked-bonds, PAB, CTB or even best-in-class strategies.

3. Financial products with the intention of credible sustainability standards or adhering to a specific suss tainability-related theme.

   Here, the criteria for the level of ambition are as follow: environmental and/or social and/or governance factors that are more process-based and could rely on credible sustainability standards sourced either from a third party or proprietarily without aiming at achieving measurable outcomes in sustainability terms (for example EU Taxonomy or other taxonomies, EU Green Bond standards, SDGs, ICMA Social Bond Principles).

   This category can be fulfilled by investing in green bonds, but also in climate thematic with companies that comply with specific sustainability-related criteria.

While mindful of the limitations to which existing concepts can be adapted, we also see merit in leveraging the market's existing familiarity with SFDR concepts. We see value in retaining elements of the current regime, particularly the Principle Adverse Impact (PAI) indicators**, as far as they are relevant to the product's intention.** Therefore, **recalibrating certain existing SFDR concepts to complement the categorisation regime can enhance the overall effectiveness and acceptance of any future SFDR approach.**

Strengthening the regulation's synergies with existing and upcoming rules

Alignment with MiFID and IDD sustainability preferences

Aligning SFDR with financial advisory frameworks such as MiFID II and IDD is critical for engaging retail investors effectively on sustainability; such investors often struggle with complex ESG disclosures. Significant challenges arise when aligning the product categorisation under SFDR (Article 8 versus Article 9) with the questions posed by financial advisors to assess their clients' sustainability preferences under MiFID II and IDD (taxonomy alignment, percentage of sustainable investments and PAI consideration).

To bridge these gaps, we suggest that financial advisors begin by understanding investors' specific ESG-related needs and desires, such as aligning their investments with their personal values or contributing to environmental and social goals. Based on these preferences, advisors can then offer suitable ESG investment strategies across various product categories. The process involves asking clear, tailored questions that help define the investor's environmental and social investment goals as well as the scope of their commitment. The communication of ESG features should be clear and concise, avoiding excessive detail that can overwhelm and hinder decision-making. This approach calls for a flexible, investor-centric communication strategy at the point of sale, to help investors make informed choices.

Alignment with the Corporate Sustainability Reporting Directive (CSRD)

Better alignment between CSRD and SFDR is important. Currently, there are still some discrepancies between disclosure requirements for investee companies and asset managers. Investee companies are allowed to determine what is material to their reporting and may opt out of disclosing certain data. Meanwhile, financial market participants (FMPs) must disclose all mandatory indicators, regardless of their materiality to the investment. This inconsistency leads to data gaps and potential misinformation for investors. We believe that FMPs should instead be allowed to focus on the indicators that are most relevant and significant to their business and financial products, while still providing sufficient coverage of the principal adverse indicators. To avoid leaving room for interpretation or uncertainty, there needs to be clear guidance from regulators to ensure equitable treatment and the integration of 'non-material' data by all stakeholders.

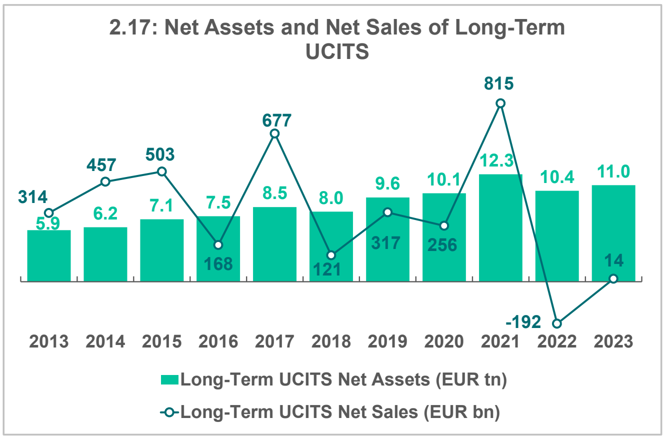
Furthermore, the placement of the PAI entity-level statement within a product regulatory framework warrants careful consideration to avoid redundancy. Entities currently adhering to Article 4 of SFDR disclosure requirements also fall under CSRD. CSRD, however, already requires firms to provide this information. To prevent regulatory duplication, it is essential to maintain a clear demarcation between SFDR and CSRD. SFDR must focus on product-level information, while CSRD should deal with corporate-level disclosures. Therefore, we suggest removing the PAI entity-level disclosure requirement from SFDR to avoid this overlap. The primary concern lies with the details of the individual investment products themselves (not demand for entity-level disclosures); this requirement imposes additional costs without adding value in terms of decision-relevant information.

Alignment of ESG information under the BMR for ETFs and other index-tracking products

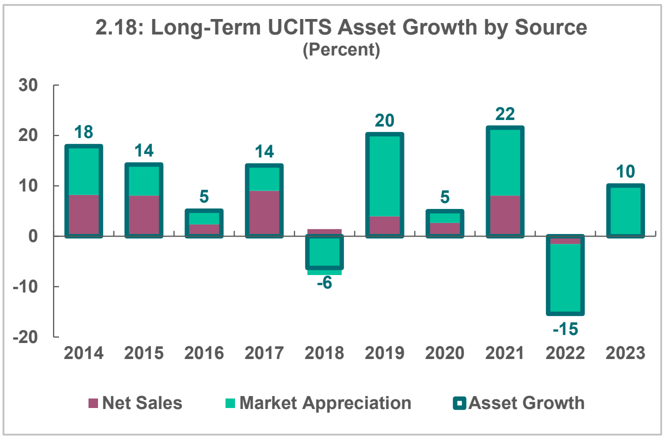
The effectiveness of SFDR is significantly limited by inadequate data provision from benchmark administrators. While SFDR mandates transparency and disclosure requirements for EU-domiciled fund managers - including those managing ETFs and other index products - it does not impose similar obligations on benchmark administrators. With the exception of the Climate Benchmark Regulation - which only applies to Paris-aligned and climate transition benchmarks - there are no regulatory incentives for benchmark administrators to provide necessary data. This poses substantial challenges for asset managers, who must often source missing data at significant cost, either internally or from third parties.meaningful non-financial ESG data on investee companies is the main hindrance to the further development of ESG fund markets across the world.

2.3.2 Long-term UCITS

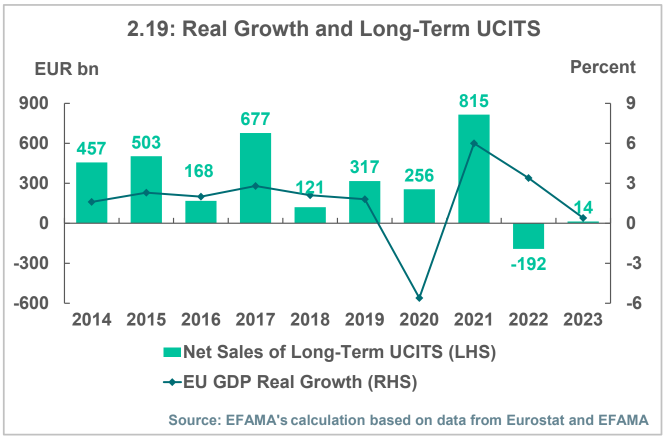
Net assets and net sales of long-term UCITS. Net assets of long-term UCITS, which exclude money market funds (MMFs), rose to EUR 11 trillion at end 2023, up from EUR 10.4 trillion in 2022. Net sales recovered from the net outflows of 2022 (EUR 192 billion) but remained relatively muted (EUR 14 billion). With the exception of 2022, these were the lowest net sales of the decade.



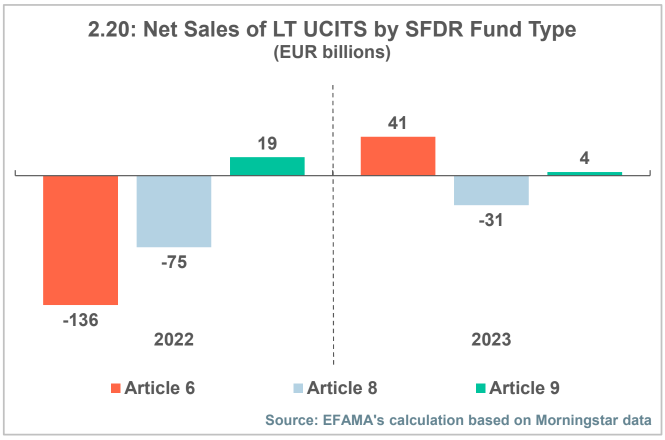
Breakdown of net asset growth. Net assets of long-term UCITS returned to growth in 2023. The bulk of the increase in net assets can be attributed to a market appreciation effect, with both the bond and equity markets increasing. The net sales of long-term UCITS, which were close to zero, accounted for only 0.2% of the total net assets increase of 10% in 2023.



Net sales of long-term UCITS and real GDP growth. There appears to be a tentative positive correlation between net sales of long-term UCITS and GDP growth in a specific year. This underscores the influence of investors' perceptions of the economic outlook on their demand for long-term UCITS. By way of illustration, Brexit, and Donald Trump's election in 2016, resulted in sudden investor caution. The onset of the COVID-19 pandemic in 2020 resulted in a decline in net sales, followed by a robust economic recovery and record-breaking net sales in 2021. In 2022, GDP decreased and net sales plummeted, due to the conflict in Ukraine and sharp increases in interest rates.

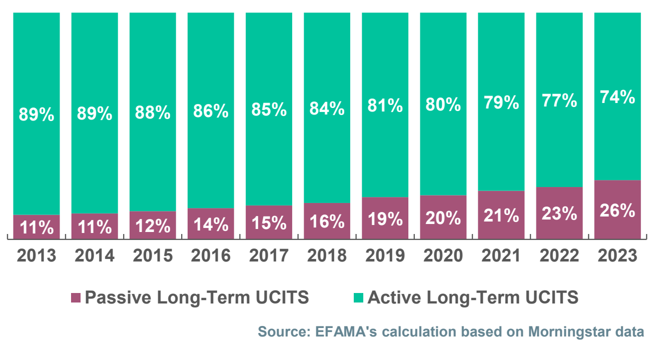


Net sales of SFDR funds. Looking at the net flows of long-term UCITS by type of SFDR funds, we see that - unlike in total UCITS - net sales of Article 8 funds remained negative in 2023. This was primarily due to the strong demand for Article 8 MMFs throughout the year. Article 6 funds reversed their net outflows in 2022, thanks to the significant net inflows into ETFs.



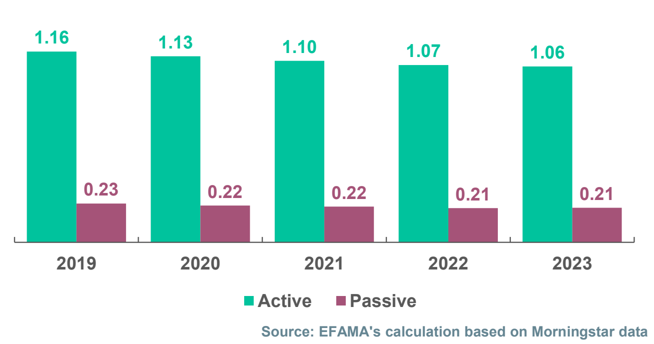
Active and passive long-term UCITS. Another important distinction we can make in the long-term UCITS funds universe is between active and passive funds. Passive funds - often also referred to as index funds are funds designed to track a market index by investing in the same securities at the same weight. The sole aim of a passive fund manager is to replicate the performance of their tracked index. In contrast, portfolio managers of active funds adjust the holdings on an ongoing basis, aiming to deliver a performance that beats the fund's stated benchmark or index. Active managers use their expertise, coupled with extensive research, to decide where to invest to earn a return superior to that of an index, or to meet other investment objectives such as limiting risk or incorporating ESG criteria. As shown below, active funds typically have higher expenses than passive ones. This is one of the reasons behind the significant growth in the market share of passive funds in recent years, which rose from 11% of total long-term UCITS net assets in 2013 to 26% by end 2023.

2.21: Net Assets of Active and Passive Long-Term UCITS
(Percent)



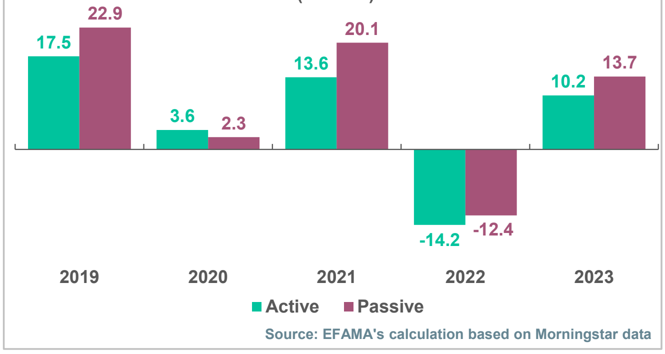
Cost of long-term UCITS. Fund costs in Europe are gradually reducing. Long-term UCITS recorded a consistent decline in costs over these last 5 years. Active long-term UCITS reduced their ongoing charges from 1.16% in 2019 to 1.06% in 2023, while passive long-term UCITS showed a decrease, from 0.23% in 2019 to 0.21% in 2023.

2.22: Average Annual Ongoing Charges of Long-Term UCITS
(Percent)



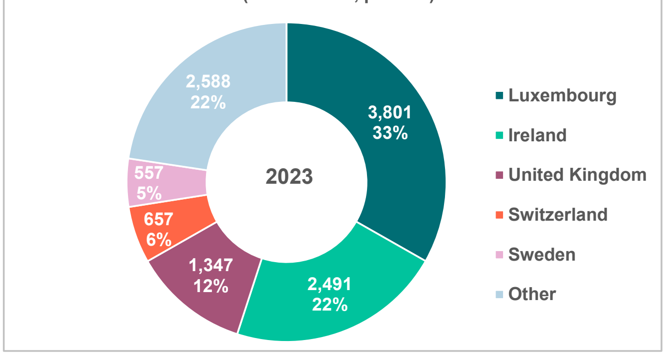
Net performance of long-term UCITS. The net performance of long-term UCITS (net of costs) recovered in 2023, after having suffered due to geopolitical and macroeconomic challenges in 2022. Active long-term UCITS saw their performance net of costs reach 10.2% on average in 2023, while the performance of passive long-term UCITS was even slightly higher (13.7%).

2.23: Average Annual Net Performance of Long-Term UCITS
(Percent)



Top five domiciles for long-term UCITS. Luxembourg remained Europe's largest domicile for long-term UCITS in 2023 (33%), followed by Ireland (22%), the UK (12%) and Switzerland (6%). Sweden (5%) took over fifth position from France (4%).

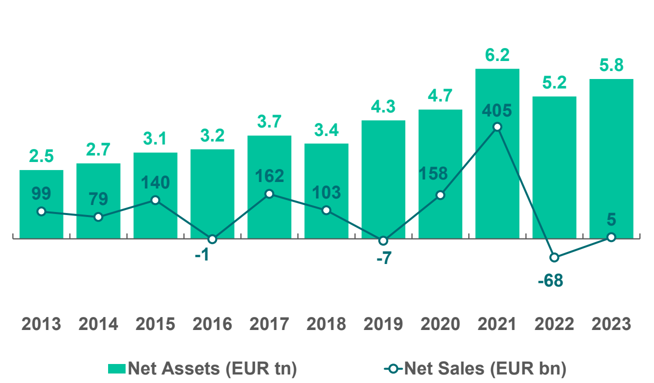
2.24: Top 5 Country Shares in Long-Term UCITS Net Assets
(EUR billions, percent)



2.3.3 Equity UCITS

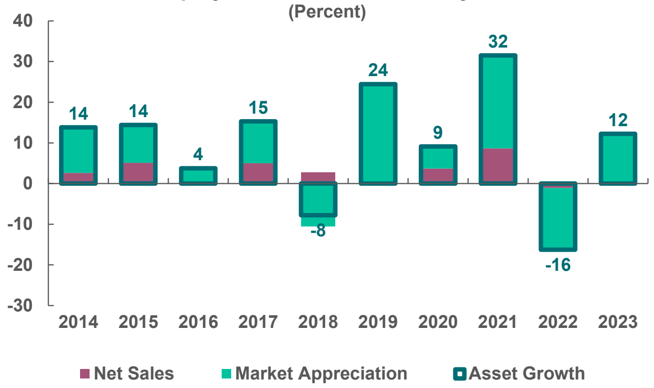
Net assets and net sales. Global stock markets performed rather well in 2023, with the STOXX Europe 600 returning 12.5% and the MSCI world index growing by 20%. Net assets of equity UCITS mirrored this development, ending the year at EUR 5.8 trillion, compared to EUR 5.2 trillion in 2022 and EUR 6.2 trillion in 2021. Net sales of equity UCITS recovered from the negative net sales of 2022, but net inflows remained very subdued (EUR 5 billion).

2.25: Net Assets and Net Sales of Equity UCITS



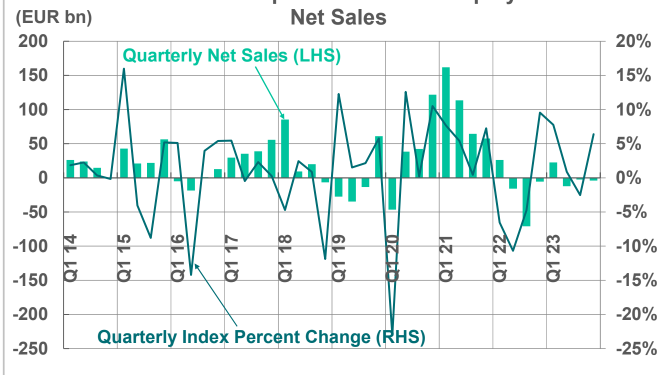
Breakdown of net asset growth. Net assets of equity UCITS grew by 12%, compared to a decrease of 16% the year before. Only 0.1% of this increase can be attributed to net sales, with the remainder due to the overall rise in European and global stock markets.

2.26: Equity UCITS Asset Growth by Source
(Percent)



Demand for equity funds and the stock markets. Net sales of equity funds typically align with the movements of the stock market. They show increased net inflows during market upswings and low inflows or even net outflows during stock market downturns.

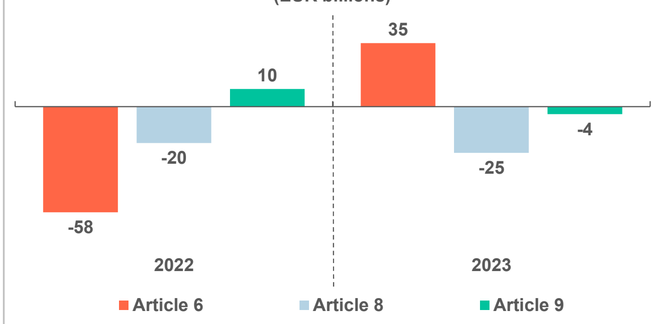
2.27: STOXX Europe 600 Index and Equity UCITS Net Sales



Source: Deutsche Börse Group and EFAMA

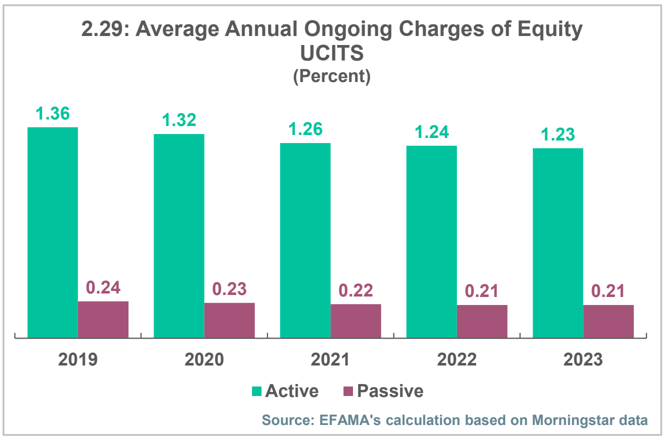
Net sales of SFDR funds. Looking at the net flows of equity UCITS by type of SFDR funds, we can see a wholesale shift between 2022 and 2023. In 2022, the bulk of net outflows were in Article 6 funds, while Article 9 funds recorded net inflows. This reversed in 2023, with Article 6 funds attracting net inflows and Article 9 funds recording net outflows. The rationale behind this lies in the fact that the 2023 inflows into equity UCITS were exclusively concentrated in ETFs (see section 2.3.8), while non-ETFs registered net outflows. ETFs predominantly follow an index and are therefore mainly Article 6, whereas the vast majority of Article 9 funds are actively managed and thus typically non-ETFs.

2.28: Net Sales of Equity UCITS by SFDR Fund Type
(EUR billions)

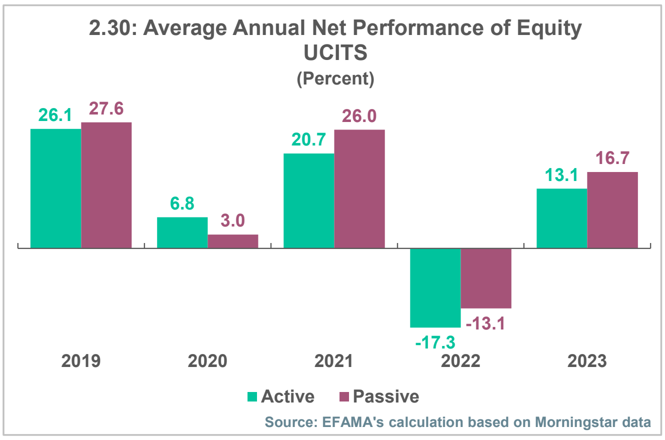


Source: EFAMA's calculation based on Morningstar data

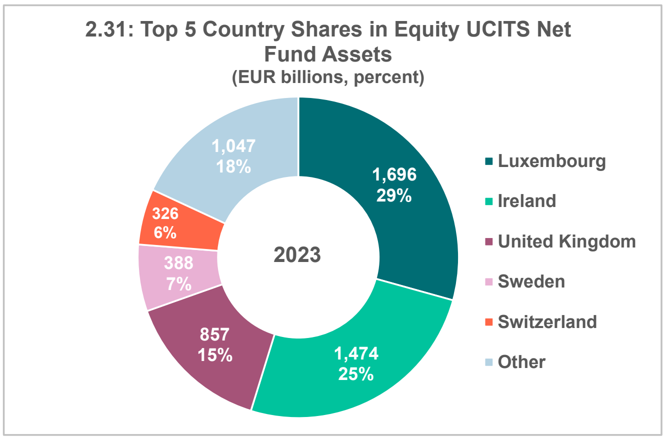
Cost of equity UCITS. The cost of equity UCITS has been falling consistently over the past five years. Average ongoing charges of active equity UCITS fell from 1.36% in 2019 to 1.23% in 2023. Passive equity UCITS also reported a decrease, but this was less pronounced, from 0.24% in 2019 to 0.21% in 2023.



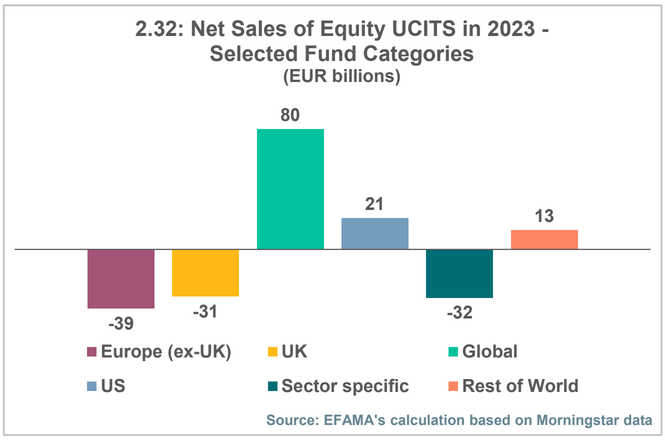
Performance of equity UCITS. Equity UCITS performed strongly net of costs in 2023, following a bad year in 2022. Active equity UCITS exhibited an average annual net performance of 13.1% in 2023, while passive equity UCITS had a slightly stronger net performance of 16.7%. Overall, in the last five years - including the poor market year 2022 - the average annual net performance for active equity UCITS was 10%, while for passive UCITS, this amounted to 12.5%.



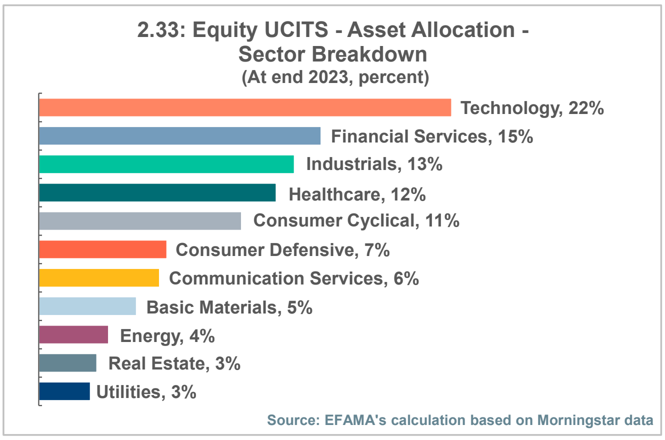
Breakdown by domicile. At end 2023, the main domiciles for UCITS equity funds - in terms of net assets - were Luxembourg (29%) followed by Ireland (25%), the UK (15%), Sweden (7%) and Switzerland (6%). Some 18% of the net assets of equity UCITS were domiciled in other countries.



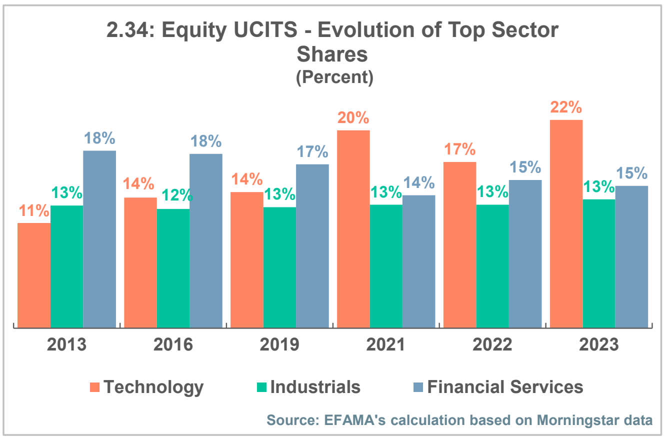
Net sales of selected fund categories. We can delve deeper into the overall net sales of equity funds over the course of 2023, identifying those fund categories that accounted for the bulk of the net inflows and those responsible for the net outflows. Equity UCITS with a global focus accounted for the bulk of net inflows (EUR 80 billion), as investors rushed into global ETFs (see section 2.3.8), which often follow a global index. US-specific funds also attracted net inflows, again mainly due to the many ETFs that follow major US indices such as the S&P 500. At the same time, European-focused funds recorded net outflows similar to UK-centric funds, as European and UK stock markets performed less well over 2023 than their US counterparts. Sector-specific funds also saw negative net sales over the full year, as most of these funds are non-ETFs.



Asset allocation - Industry sector. Examining the industry sector breakdown of the stocks held by equity funds, technology companies accounted for the largest share at 22%. Financial services ranked second (15%), followed by industrials (13%) healthcare (12%) and consumer cyclical shares (11%).

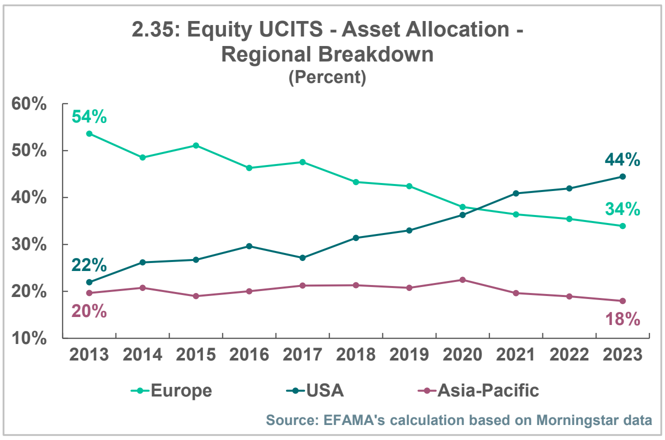


Asset allocation - Evolution of industry sector. During 2013-2021, the market share of the technology sector almost doubled, from 11% in 2013 to 20% by end 2021. This was largely fuelled by the robust stock market performance of major global technology giants such as Alphabet, Apple, Amazon and Microsoft, with particularly strong growth during the pandemic years of 2020 and 2021. In 2022, technology stocks experienced a deeper-than-average fall, resulting in their share falling back to 17%. By end 2023 however, thanks to the stock market performance of the so-called 'magnificent seven' stocks, the technology sector bounced back again with its share surging to 22%.

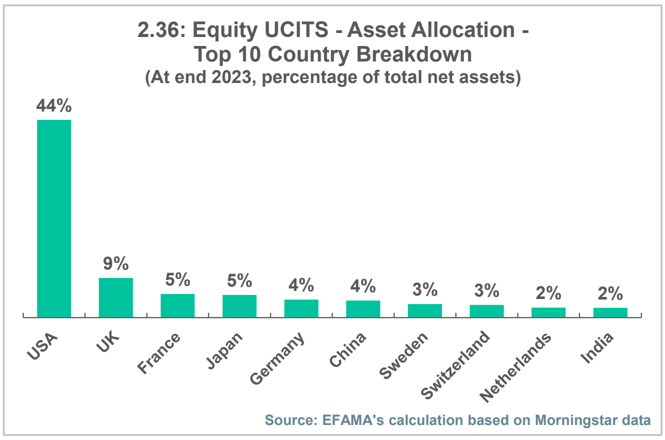


Asset allocation - Regional breakdown. Looking at equity funds assets broken down by region[vii], a noticeable decrease in the proportion of European stocks becomes apparent. Conversely, the allocation of US stocks in UCITS equity funds has steadily increased over the past decade.

This trend is directly attributable to a number of factors; these include the outperformance of US stock markets relative to European markets, coupled with the global success of the UCITS brand and heightened demand for US stocks from international investors. This trend even accelerated in 2023, with the proportion of US stocks rising from 42% to 44.5%. Meanwhile, the share of Asian stocks experienced a slight decline in recent years, dropping from 22% in 2020 to 18% in 2023, largely due to the weaker performance of Chinese stock markets.



Asset allocation - Country breakdown. Each of the top ten countries featured in the portfolios of European equity UCITS hosts stock exchanges with significant market capitalisations and is home base for numerous large-cap companies. Among these top ten countries, six are situated in Europe; the UK (9%), France (5%), Germany (4%), Sweden (3%), Switzerland (3%) and the Netherlands (2%). However, these shares were significantly lower than that of the US (44%).



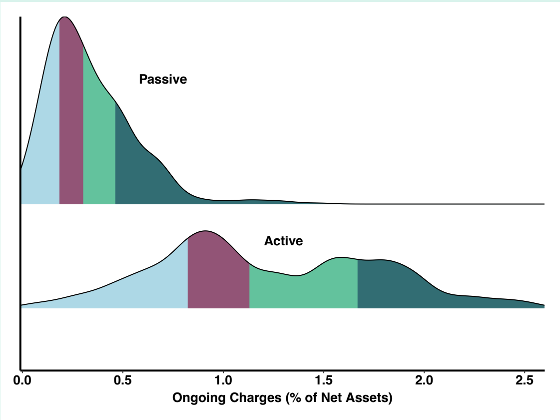
Box 2
Diversity in the performance and costs of active and passive UCITS

Author: **Vera Jotanovic**

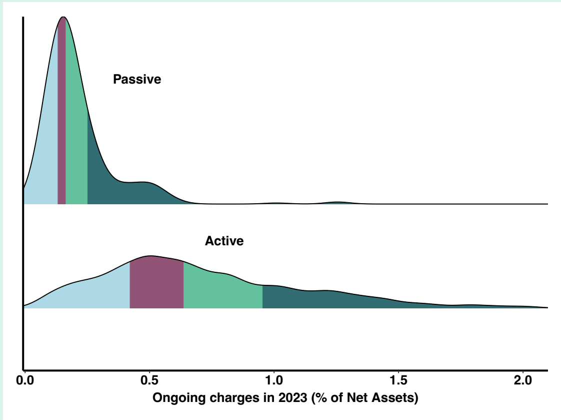
Fund cost is an important consideration when choosing to invest in a fund. Throughout the various sections of chapter 2.3 we gave an overview of the historical average annual UCITS fees for each UCITS fund type. Overall, passive UCITS tend to be more cost-effective than active ones. On average, the annual ongoing charges for active equity UCITS amounted to 1.23% of their net assets in 2023, compared to 0.21% for passive equity UCITS. For bond UCITS, the charges were lower, with active bond UCITS averaging 0.67% and passive bond UCITS at 0.18%.

However, the UCITS funds universe is diverse, and costs can vary significantly. In the charts below, we can see that there is a segment of active funds that are as affordable, or even more so, than some passive funds.

Equity UCITS



Bond UCITS



Source: EFAMA's calculations on Morningstar data

Also, while the majority of active funds are more expensive than passive funds, when assessing the financial gains from investing in a fund, it is important to consider the net performance, which accounts for costs, instead of focusing solely on the cost.

To evaluate the net performances of active and passive UCITS funds, in previous sections we reported average annual returns (net of costs) for these categories during the period 2019-2023. In 2023, net performances were positive and rewarding for equity UCITS, with passive equity UCITS outperforming (16.7%) active UCITS (13.1%). In the same year, active bond UCITS performed slightly better than the passive ones, with average annual net returns of 5.9% and 5.1%, respectively.

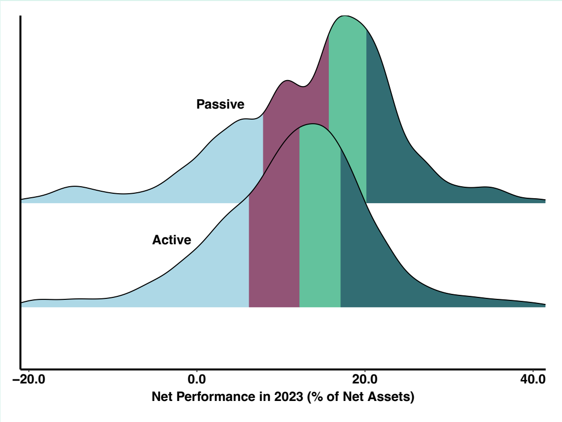
When deciding to invest in an active or a passive fund, investors may look at past performance for guidance. However, it is misleading to conclude that one category consistently outperforms the other based on average measures[1]. The universe of funds is highly heterogeneous, differing significantly across issuers, types of securities, geographical exposure, currency and industrial sectors. By way of illustration, passive equity UCITS outperformed active equity UCITS in the technology sector over the last 10 years (2014-2023), with an average annualised net return of 13.4% versus 12.7% for active UCITS. Conversely, in the financial sector, active equity UCITS outperformed passive ones, with an average annualised 10-year net return of 7.0% compared to 4.5%[2].

1 For example, in their last edition of the *Costs and Performance of EU Retail Investment Products Report for 2023*, ESMA underlined that 'active equity funds once more underperformed, in net terms, passive non-ETF funds and ETFs'.

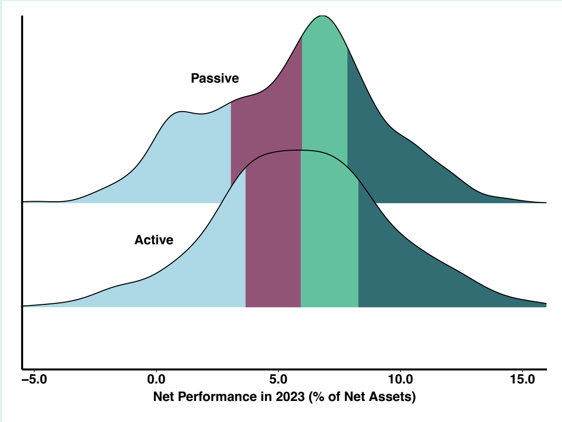
2 Further research on this topic will be reported in new EFAMA's report on the sectoral performance of active and passive UCITS.

Thus, relying on one simple performance measure for the universe of active and passive UCITS can be misleading as certain categories of active funds outperform passive ones and vice versa. This variability is illustrated in the charts below, which show the distributions of net performances for active and passive equity and bond UCITS in 2023.

Equity UCITS



Bond UCITS



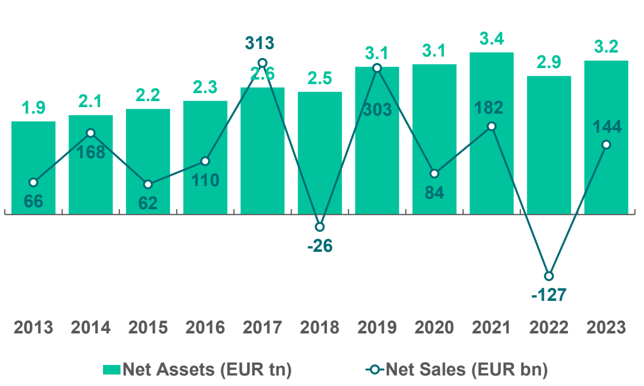
Source: EFAMA's calculations on Morningstar data

Investing in a fund solely because it belongs to a category of funds with the highest historical performance or the lowest costs, based on average measures, could be highly misleading. Individual funds might have different performances and costs from the majority in their category. Thus, due to the significant heterogeneity of UCITS funds, investors should benefit from professional advice to help them choose funds that align with their individual investment preferences.

2.3.4 Bond UCITS

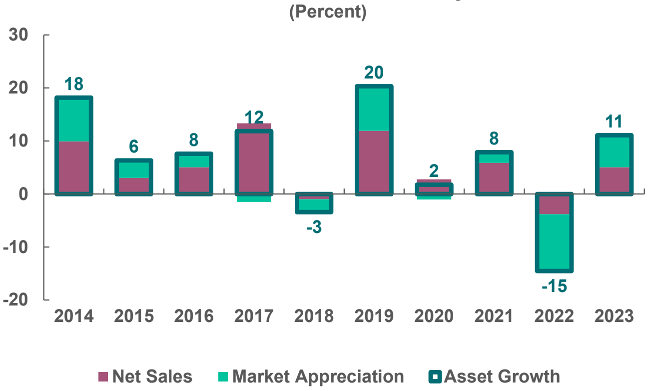
Net assets and net sales. The sudden and severe monetary tightening of 2022 to combat inflation resulted in a decrease in the valuations of existing bonds and substantial net outflows from bond UCITS. In 2023, conversely, bond UCITS rebounded as interest rates stabilised. With inflation slowing down, central banks ended their consecutive rate hikes, and by year end, some investors were even anticipating potential rate cuts in 2024. This optimistic outlook fuelled a net sales rally in 2023, with net inflows reaching EUR 144 billion, a notable contrast to the net outflows the year before.

2.37: Net Assets and Net Sales of Bond UCITS



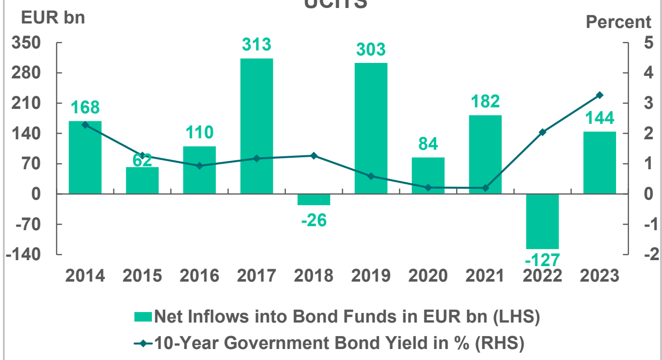
Breakdown of net asset growth. In general, price effects have less impact on the overall asset growth in bond funds than in equity funds. This is because bond prices tend to fluctuate less than stock prices. In some years, however, there are larger price effects; in 2022, most of the 15% overall net asset decline was due to a drop in bond values (11%) and only 4% to the result of net outflows. In 2023, market appreciation accounted for around half of the 11% asset growth as bond prices recovered.

2.38: Bond UCITS Asset Growth by Source
(Percent)



Demand for bond funds and long-term interest rates. The demand for bond funds tends to be negatively correlated with the movement of long-term interest rates. This relationship was clearly evident in 2018, when bond funds faced headwinds as interest rates started to rise at the beginning of the year. In 2019, net sales of bond funds rebounded as central banks reduced interest rates. Net inflows were sustained during 2020 and 2021, as bond yields continued to fall. However, the situation underwent a substantial shift in 2022, as the abrupt and sharp increase in interest rates adversely affected the attractiveness of bonds that year. The apparent reversal in correlation in 2023 can be explained by the fact that central banks had stopped increasing interest rates August-September of that year, triggering an anticipation of rate cuts in 2024.

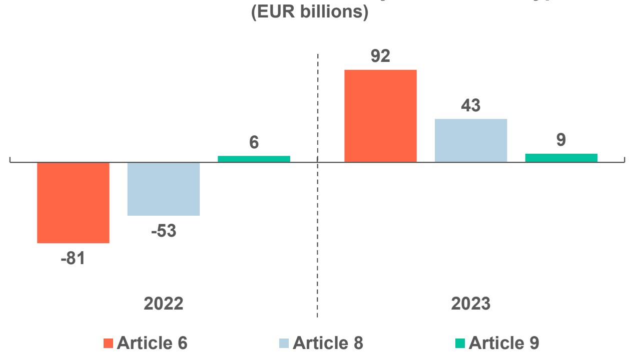
2.39: Interest Rates and Net Inflows into Bond UCITS



Source: ECB and EFAMA

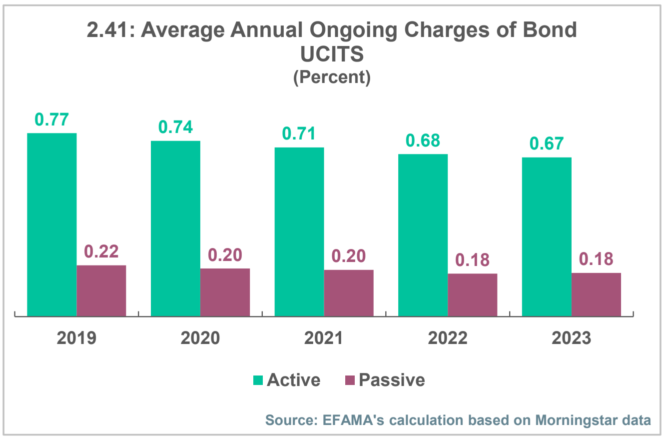
Net sales of SFDR funds. In contrast to 2022, where only SFDR Article 9 recorded net inflows, all three types of SFDR funds registered net inflows during 2023. SFDR Article 6 bond funds attracted the highest net inflows, as bond ETFs did particularly well in 2023 (see section 2.3.8); most bond ETFs are labelled as Article 6.

2.40: Net Sales of Bond UCITS by SFDR Fund Type
(EUR billions)

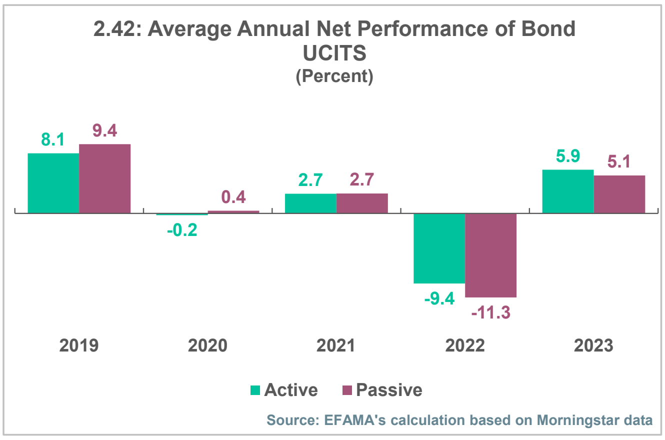


Source: EFAMA's calculation based on Morningstar data

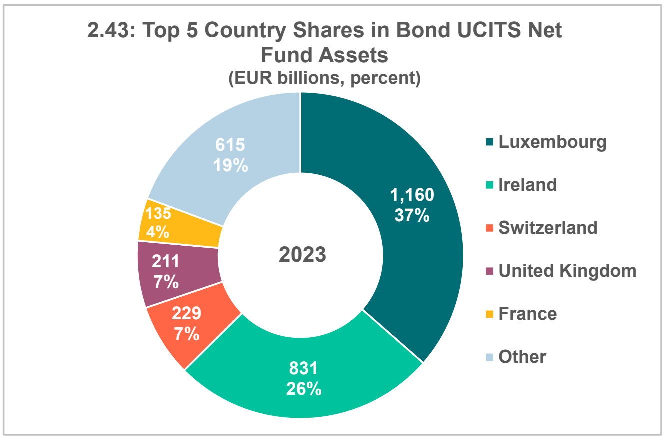
Cost of Bond UCITS. As with equity UCITS, bond UCITS have also shown a consistent decrease in costs over the last five years. Active bond UCITS reduced their average ongoing charge from 0.77% in 2019 to 0.67% in 2023. Passive bond UCITS saw their ongoing charges decrease from 0.22% in 2019 to 0.18% in 2023.



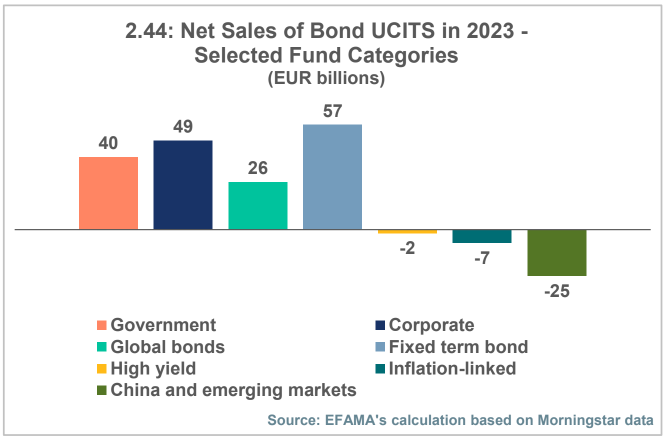
Net Performance of bond UCITS. The average annual performance of bond UCITS - net of costs - recovered strongly in 2023 from the negative returns of the previous year. The net performance of 2023 was 5.9% for active bond UCITS and 5.1% for passive. This rebound was even stronger than that in 2021, when the market recovered from the 2020 COVID-19-induced crisis that had caused bond yields to suffer greatly. Average annual net performance of active bond UCITS over the last five years was 1.4%, while that of passive bond UCITS was slightly lower at 1.3%.



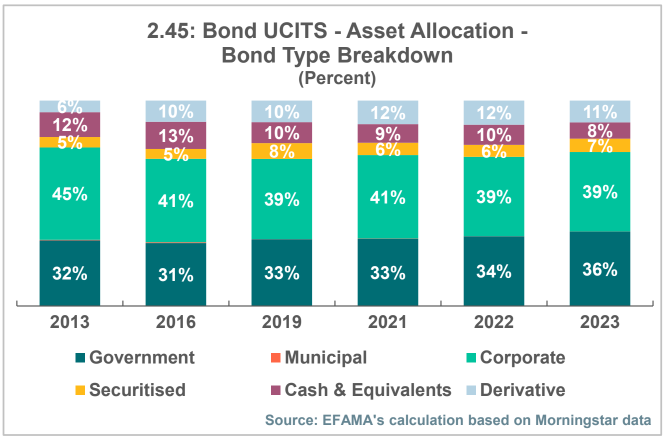
Breakdown by domicile. As of end 2023, Luxembourg held the highest market share of UCITS bond fund net assets at 37%, trailed by Ireland at 26%, Switzerland and the UK at 7% and France at 4%. Other European countries had a combined market share of 19%.



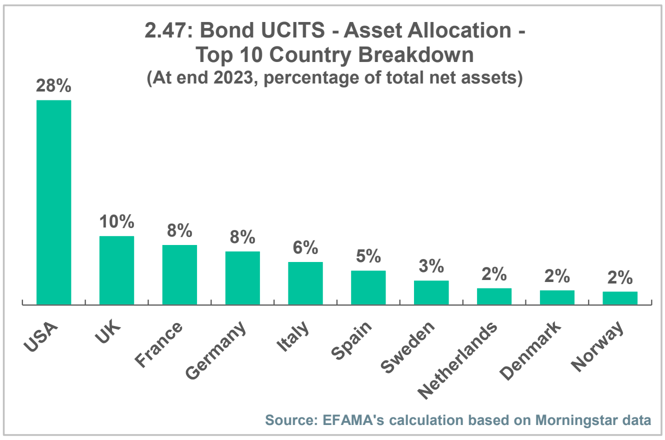
Net sales of selected fund categories. Looking at which categories of bond funds attracted net inflows and net outflows can shed additional light on 2023 market developments. The interest rate hikes in 2022 and the consequent stabilisation of 2023 made bonds as an asset class attractive again. Bond fund investors continued to prefer less-risky investments in 2023, moving mainly into fixed-term bond funds (EUR 57 billion), government bond funds (EUR 40 billion), US and European corporate bond funds (EUR 49 billion) and global bonds (EUR 26 billion). Funds that focused on riskier debt securities did less well, as investors withdrew money from China and other emerging market-centric funds (EUR 25 billion) as well as from high yield bond funds (EUR 2 billion). Inflation-linked bond funds recorded significant negative net sales (EUR 7 billion) as these types of funds failed to protect investors from the strong surge in inflation the year before.



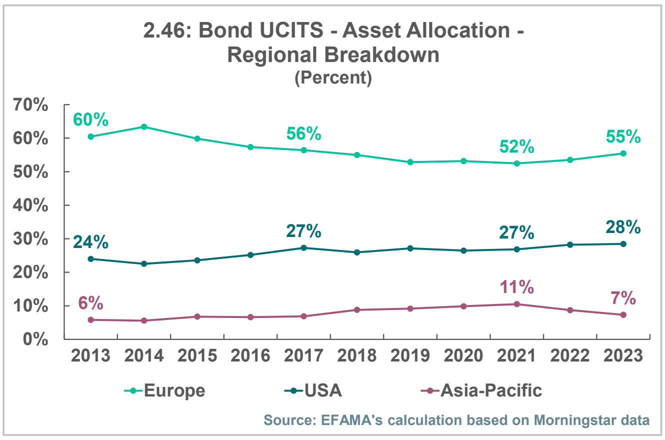
Asset allocation - Overall. Corporate bonds accounted for 39% of the net asset holdings of UCITS bond funds at end 2023. Government debt represented 36%, while derivatives and securitised debt accounted for 11% and 7%, respectively. Bond funds held 8% of their assets in cash and cash-like equivalents.[viii] In 2023, percentages of cash mainly declined and the percentage of government debt increased, as interest increases during 2022 rendered government bond yields attractive again.



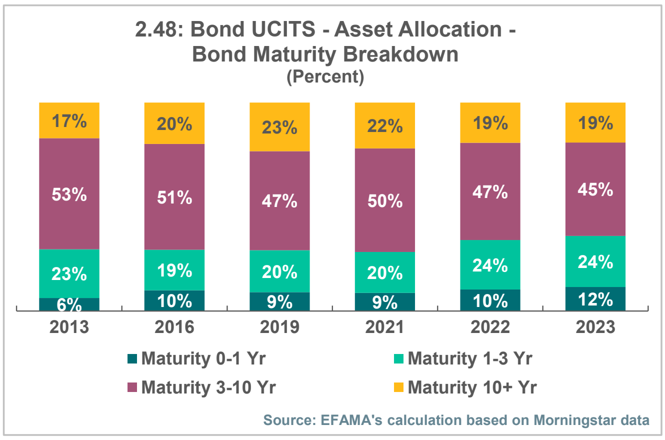
Asset allocation - Country breakdown. Approximately 28% of bond assets originated in the US. The UK accounted for 10%, while the other three major European countries - France, Germany and Italy - completed the top five with 8%, 8% and 6%, respectively. Among the ten largest countries in terms of bond asset allocation, nine are European. Until 2021, China was in the top ten, but it dropped out in 2022 as investors and asset managers shifted their focus back to European debt securities.



Asset allocation - Regional breakdown. A review of the bond holdings by geographical region[ix] illustrates that - after steadily declining until 2021 - the share of European bonds recovered again in 2022 and 2023, as rapidly rising interest rates made European bonds attractive to investors again. Meanwhile, the share of US fixed income has remained relatively consistent in recent years, hovering around 27-28%. However, the gradual increase in the share of bonds issued in the Asia-Pacific region, driven by investors seeking higher yields in Asian markets, ground to a halt in 2022.



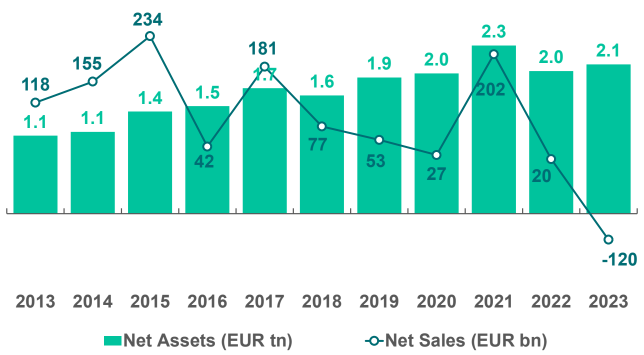
Asset allocation - Maturity breakdown. The asset allocation by maturity of the bond holdings of bond UCITS has remained broadly stable from 2013 to 2021. In 2022 and 2023, however, there was a clear shift towards shorter-term securities, particularly those with a maturity of less than one year. The fact that yield curves flattened in 2022 and remained inverted for much of 2023 clearly played a pivotal role in this shift.



2.3.5 Multi-asset UCITS

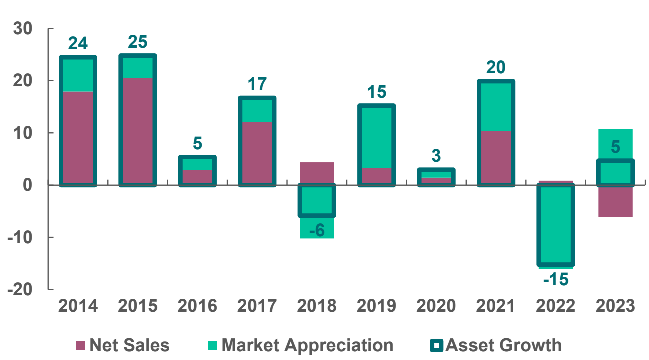
Net assets and net sales. Net sales of multi-asset UCITS turned negative in 2023 (EUR 120 billion), compared to net inflows of EUR 20 billion in 2022. These were the first annual net outflows of the decade, clearly indicating a slump in investor interest for multi-asset UCITS in 2023. The 2023 outflows can mainly be explained by the disappointing returns of multi-asset funds in 2022, as both bond and stock markets fell. That year, multi-asset UCITS had failed to provide the protection that investors expected by investing in multi-asset funds, which, in principle, combine different asset classes with low correlations. Recent rate hikes increased the attractiveness of fixed-income funds in 2023, in particular towards the end of the year, when investors started to anticipate rate drops. Given a degree of stock market volatility throughout the year, many investors considered bond funds a better investment choice than multi-asset funds in 2023. The demand for multi-asset funds will likely rebound at some point, as some investors will still seek to diversify their portfolio and avoid the risks associated with single-asset class investing. A strong investor preference for ETFs throughout 2023 also disadvantaged multi-asset UCITS, since hardly any multi-asset ETFs exist. Costs could also have played a part, as multi-asset UCITS tend to be slightly more expensive than bond or equity UCITS. Despite the net outflows, net assets of multi-asset UCITS still rose from EUR 2 trillion in 2022 to EUR 2.1 trillion at end 2023, thanks to increases in both equity and fixed-income valuations over the year.

2.49: Net Assets and Net Sales of Multi-Asset UCITS



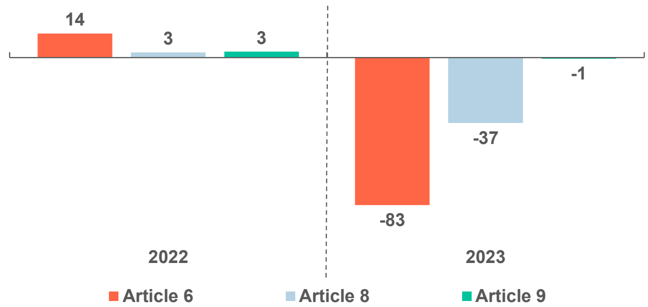
Breakdown of net asset growth. Net assets of multi-asset funds rose by slightly less than 5% in 2023. An analysis of the overall asset growth reveals that the net outflows of 2023 contributed to a decrease of 6% in asset value, which was offset by a substantial market appreciation in both the stock and bond markets, totalling 10.8%.

2.50: Multi-Asset UCITS Asset Growth by Source
(Percent)



Net sales of SFDR funds. Looking at net sales of multi-asset UCITS by type of SFDR funds, we can see that all three types of SFDR funds (Article 6, 8 and 9) suffered net outflows in 2023. Article 6 funds accounted for most of the net outflows (EUR 83 billion). Outflows from each type of SFDR funds were broadly in line with their relative net asset size.

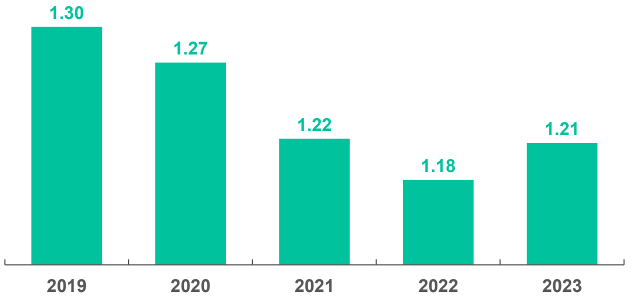
2.51: Net Sales of Multi-Asset UCITS by SFDR Fund Type
(EUR billions)



Source: EFAMA's calculation based on Morningstar data

Cost of multi-asset UCITS. Ongoing charges of multi-asset UCITS - active and passive combined - showed an overall decrease over the last five years, from 1.3% in 2019 to 1.18% in 2022. These costs edged up again in 2023, with average ongoing charges at 1.21%.

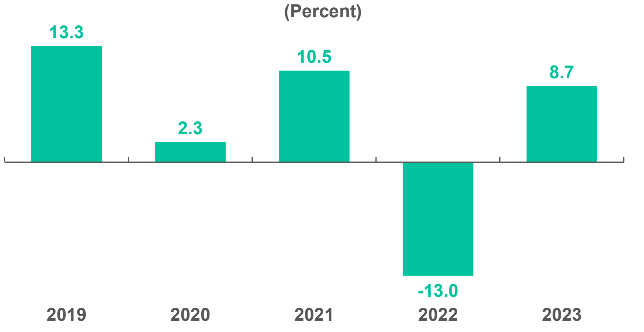
2.52: Average Annual Ongoing Charges of Multi-Asset UCITS
(Percent)



Source: EFAMA's calculation based on Morningstar data

Net performance of multi-asset UCITS. The net performance of multi-asset UCITS showed a similarly strong recovery in 2023, following a difficult 2022. The performance - net of costs – was 8.7%. Average annual net performance over the last five years was positive at 4.4%, despite the poor performance in 2022.

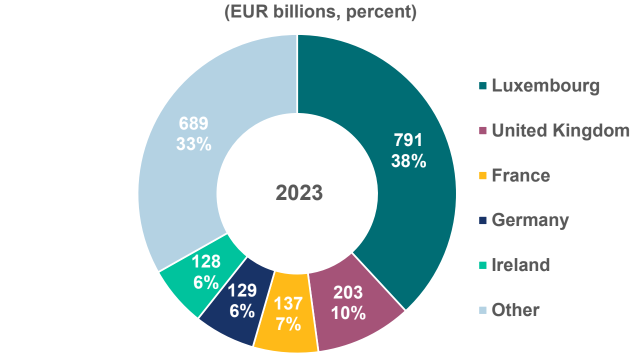
2.53: Average Annual Net Performance of Multi-Asset UCITS
(Percent)



Source: EFAMA's calculation based on Morningstar data

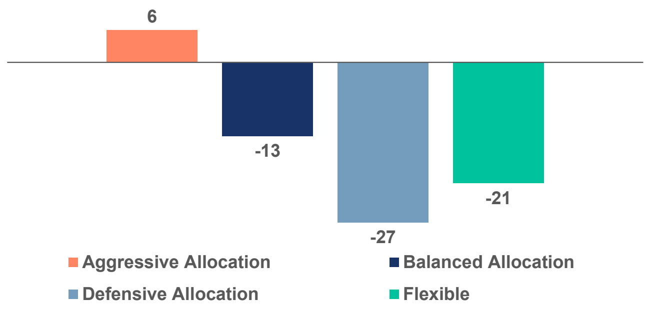
Breakdown by domicile. Within the UCITS multi-asset fund market, Luxembourg held the greatest market share (38%), trailed by the UK (10%), France (7%) and Germany and Ireland both at 6%. The remaining European domiciles collectively held a relatively significant share (33%) of the total multi-asset UCITS market. Italy and Spain accounted for a market share close to 6%, while Sweden and Switzerland were slightly below 5%.

2.54: Top 5 Country Shares in Multi-Asset UCITS Net Fund Assets
(EUR billions, percent)



Net sales of selected fund categories. Focusing on the specific categories of multi-asset funds that experienced net inflows and outflows in 2023, we observe that funds with defensive, flexible and balanced allocations all recorded net outflows. These are funds that invest a higher share of their asset allocation in bonds. Conversely, funds with an aggressive allocation - mainly investing in stocks – managed to attract modest net inflows of EUR 6 billion.

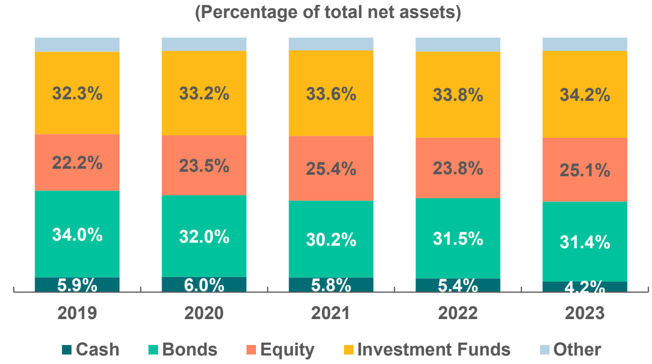
2.55: Net Sales of Multi-Asset UCITS in 2023 - Selected Fund Categories
(EUR billions)



Source: EFAMA's calculation based on Morningstar data

Asset allocation - Overall. The chart below analyses the evolution of the overall asset allocation of multi-asset UCITS in recent years. The share of directly held bonds dropped from 34% in 2019 to near 30% in 2021, only to stabilise at around 31.5% in subsequent years. The cash portion of multi-asset UCITS portfolios also declined. The proportion of stocks fluctuated somewhat year-to-year, mirroring changes in global stock markets, but over the past five years rose from around 22% to 25%. The share of investment funds that multi-asset funds invest in saw a gradual rise every year, regardless of the overall fluctuations in equity and bond prices. It grew from 32.3% in 2019 to 34.2% in 2023. This trend suggests that multi-asset fund managers have made greater use of other funds to increase their exposure to equities and bonds, more so than through direct stock or bond investments.

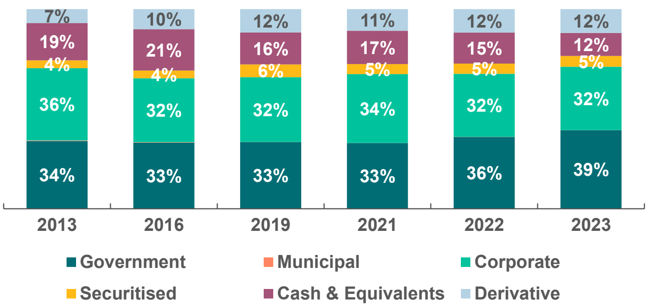
2.56: Multi-Asset UCITS - Asset Allocation
(Percentage of total net assets)



Source: EFAMA's calculation based on ECB data

Asset allocation - Bond holdings. We can also break down the debt holdings of multi-asset funds by type of debt instrument.[x] At end 2023, corporate bonds constituted 32% of the total holdings, a lower share compared to their total in bond UCITS. Sovereign bonds represented 39%, a slightly higher proportion than in bond funds and one that has risen significantly in recent years, thanks to rate hikes. Multi-asset funds allocated 12% of their debt investment to cash-like equivalents, compared to just 8% allocated to cash in the asset allocation of bond funds. Meanwhile, derivatives accounted for 12%, while securitised debt made up 5% of the fixed-income holdings.

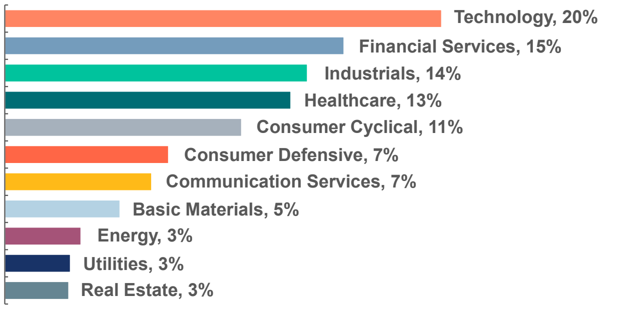
2.57: Multi-Asset UCITS - Asset Allocation - Breakdown by Bond Type
(Percent)



Source: EFAMA's calculation based on Morningstar data

Asset Allocation - Equity sector breakdown. Examining the breakdown of industry sectors in stocks held by multi-asset funds[xi], technology companies constituted by far the largest sector at 20% at end 2023. Financial services took second place (15%), industrials third (14%) and healthcare fourth (13%). Consistent with previous years, the sector breakdown of multi-asset funds at end 2023 remained broadly similar to that of equity UCITS.

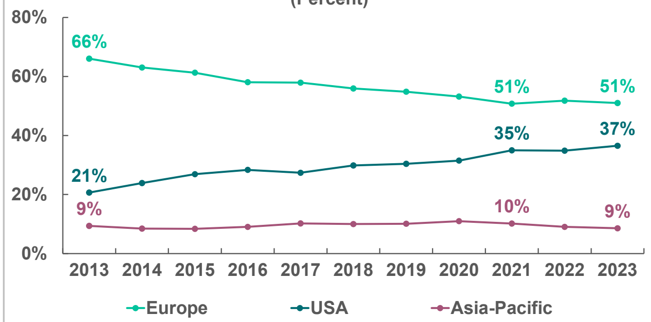
2.58: Multi-Asset UCITS - Asset Allocation - Equity Sector Breakdown
(At end 2023, percent)



Source: EFAMA's calculation based on Morningstar data

Asset allocation - Regional breakdown. Similar to equity and bond funds, we can analyse the asset holdings of multi-asset funds by combining their equity and debt holdings based on geographical regions. Europe's share has gradually declined from 66% in 2013, stabilising at around 51% in 2021. Meanwhile, the proportion of assets issued or listed in the US has increased from 21% to 35% over the same period. In 2023, the share of American assets increased from 35% to 37%, while the share of European assets decreased slightly. This decline was primarily due to US stock markets outperforming European ones. The share of the Asia-Pacific region has remained relatively stable over the past decade at around 9%.

2.59: Multi-Asset UCITS - Asset Allocation - Regional Breakdown
(Percent)

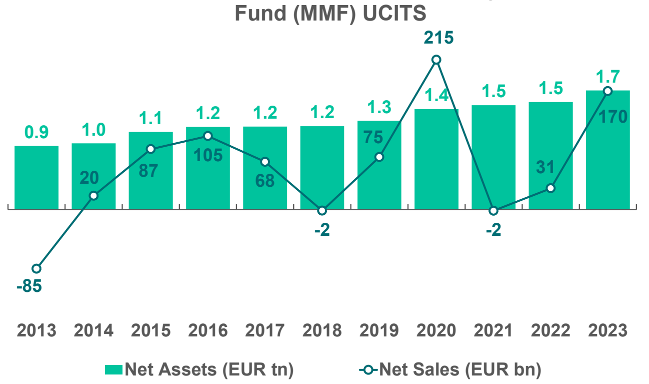


Source: EFAMA's calculation based on Morningstar data

2.3.6 Money market funds UCITS

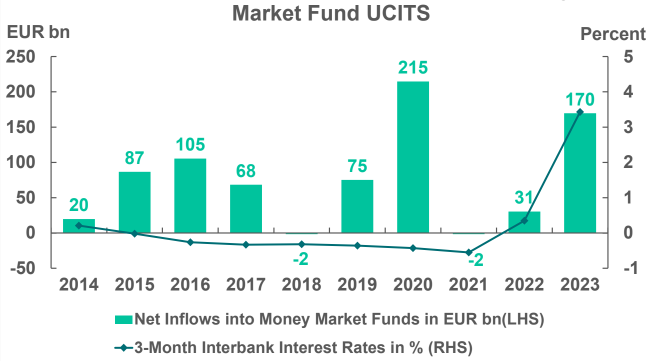
Net assets and net sales. Net assets of money market funds (MMFs) ended the year at EUR 1.7 trillion. In terms of net sales, they attracted net inflows of EUR 170 billion over the full-year 2023. These figures marked the second-highest net sales of the decade, behind the record net sales of pandemic year 2020 (EUR 215 billion). The primary driver behind the 2023 inflows was the reversed yield curve for much of that year, both in Europe and the US. An inverted yield curve indicates that short-term interest rates are generally higher than long-term rates, resulting in a higher yield for those funds investing primarily in short-term products such as MMFs, hence their appeal to investors.

2.60: Net Assets and Net Sales of Money Market Fund (MMF) UCITS



Demand for MMFs and short-term interest rates. Changes in short-term interest rates significantly impact the demand for MMFs. MMFs mainly invest in very short-term debt, often with a maturity of less than one year. Hence when short-term interest rates rise, MMF yields also tend to increase, making them more attractive to investors. This correlation was less evident during 2016-2021, when rates were negative, but became distinctly apparent again in 2023. Demand for MMFs is, however, also influenced by other factors, in particular their use as a 'safe haven' investment in times of crisis. This was clearly illustrated in 2020, when short-term rates hardly moved, but the uncertainty caused by the COVID-19 pandemic led to record MMF inflows.

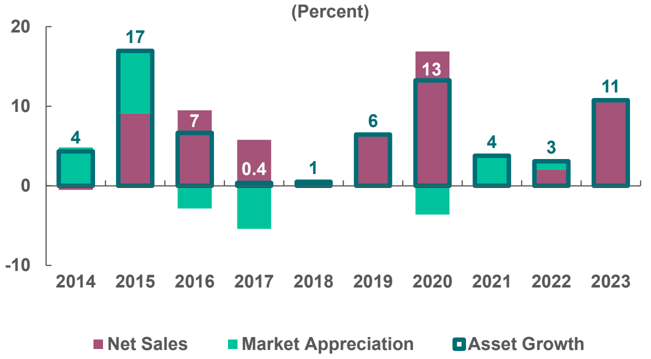
2.62: Interest Rates and Net Inflows into Money Market Fund UCITS



Source: EFAMA's calculation based on data from ECB and EFAMA

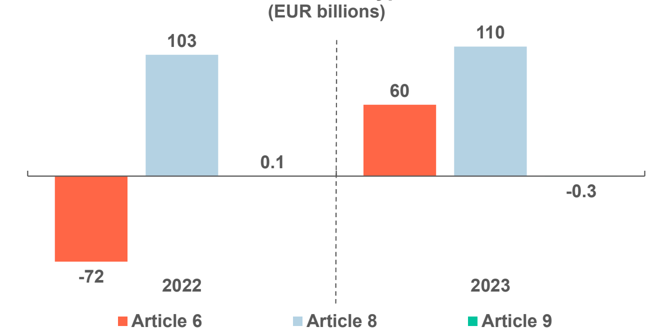
Breakdown of net asset growth. Net asset growth of MMFs amounted to around 11% in 2023. Compared to long-term UCITS, MMF asset growth is essentially driven by net sales, as the valuation of the short-term instruments held by MMFs varies little over time. Net sales accounted for virtually the entirety of the 2023 net asset growth. In other years, however, exchange rate effects can have an impact on MMF asset growth.

2.61: Money Market Fund UCITS Asset Growth by Source
(Percent)



Net sales of SFDR funds. Net sales of MMF UCITS by type of SFDR fund indicate that net inflows in 2023 were concentrated in Article 8 funds, amounting to EUR 110 billion - as in 2022. Compared to long-term UCITS, net flows into Article 9 funds were close to zero in both years, as there are scarcely any Article 9 MMFs.

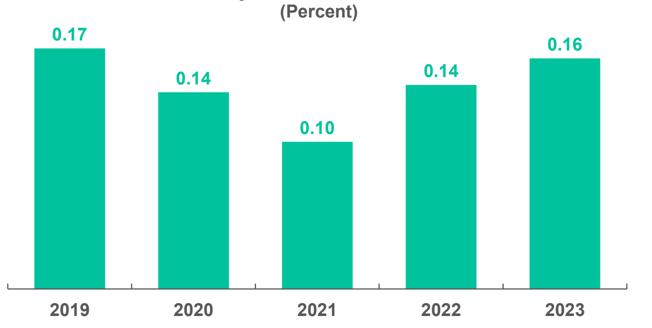
2.63: Net Sales of Money Market Fund UCITS by SFDR Fund Type
(EUR billions)



Source: EFAMA's calculation based on Morningstar data

Cost of MMF UCITS. MMF costs fell from 0.17% in 2019 to 0.10% in 2021, before increasing to 0.16% in 2023. This level of ongoing charges remains very low compared to the costs of most long-term funds.

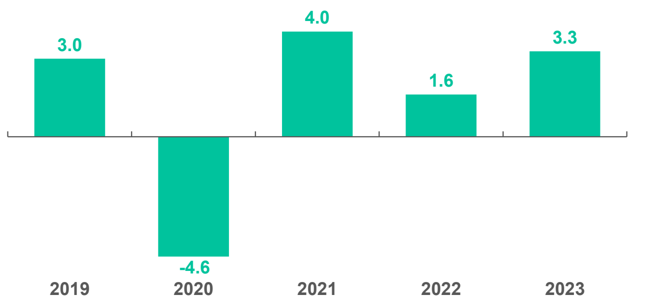
2.64: Average Annual Ongoing Charges of Money Market Fund UCITS
(Percent)



Source: EFAMA's calculation based on Morningstar data

Net Performance of MMF UCITS. The performance - net of costs - of MMF UCITS tends to be lower than that of longer-term UCITS, given their shorter investment horizon and asset allocation. The exception was 2022, when MMF returns remained positive (1.6%), while all long-term UCITS saw negative returns.

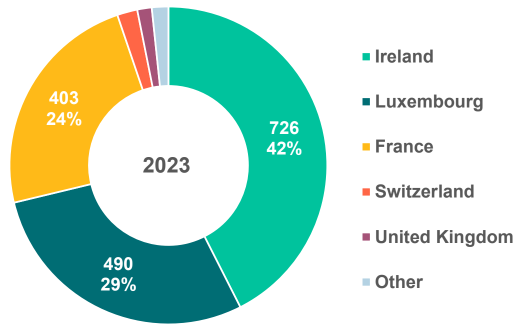
2.65: Average Annual Net Performance of Money Market Fund UCITS
(Percent)



Source: EFAMA's calculation based on Morningstar data

Breakdown by domicile. The MMF market is highly concentrated in three main domiciles. Ireland has the largest market share of UCITS MMF net assets at 42%, followed by Luxembourg at 29% and France at 24%. Combined, these three countries account for 95% of the European total at end 2023.

2.66: Top 5 Country Shares in Money Market Fund UCITS Net Assets
(EUR billions, percent)



The MMFR and types of MMFs. The EU MMFR ('Money Market Fund Regulation') was adopted in 2016 and came into full effect in January 2019. The MMFR distinguishes between three main categories of MMFs:

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

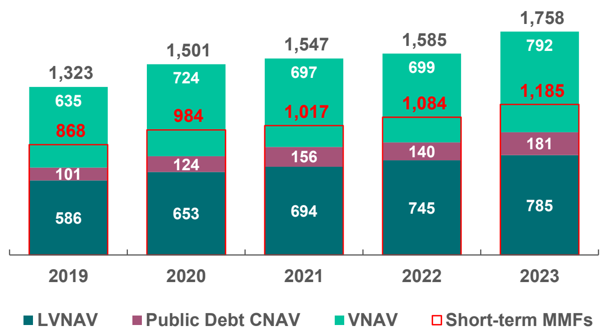
Aside from these categories, the MMFR also distinguishes between Short-term and Standard MMFs. Short-term MMFs are required to adhere to tighter investment rules than Standard MMFs. All three types can be categorised as Short-term MMFs; Public Debt CNAV, LVNAV and Short-term VNAV. Standard MMFs must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

PDCNAV and LVNAV MMFs use amortised cost accounting - provided certain conditions are met - to value all their assets and to maintain a net asset value (NAV) or value of a share of the fund, at EUR1/GBP1/USD1. Public Debt CNAV MMFs must invest a minimum of 99.5% of their assets in public debt. Units/shares in an LVNAV MMF can be purchased or redeemed at a constant price, as long as the value of the assets in the fund does not deviate by more than 0.2% from par. Public Debt CNAV and LVNAV can only be short-term MMFs.

VNAV MMFs refer to funds that use mark-to-market accounting to value some of their assets. The NAV of these funds will vary with the changing value of the assets and - in the case of an accumulating fund - by the level of income received. VNAV can be either short-term or standard MMFs.

MMF net assets by type - Evolution. The shares of the various types of MMFs have not shifted significantly in recent years. The market share of LVNAV edged up from 44% in 2019 to 47% in 2022, only to drop again to 45% at end 2023. Net assets of VNAV dropped from 48% in 2019 to 44% in 2022, but increased again slightly to 45% in 2023. PDCNAV accounted for some 10% of MMF net assets at end 2023, an increase on the 8% share of 2019. The share of short-term MMFs has edged up from 66% to 67% over the past five years. Given the fairly small market appreciation effect, evolutions in net assets are primarily driven by the net sales of the various types of MMF.

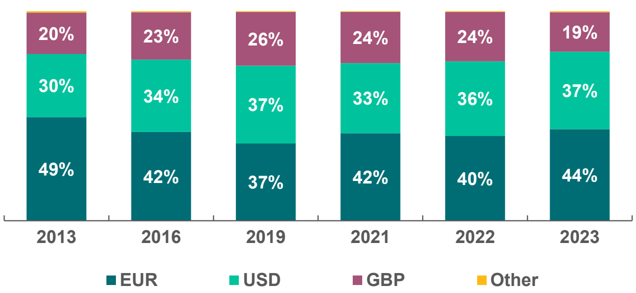
2.67: Breakdown by Type of Money Market Funds
(EUR billions)



Source: IMMFA, Morningstar and EFAMA

Asset allocation - Currency breakdown. MMFs net assets can be broken down by base currency.[xii] Collectively, three primary base currencies accounted for 99.5% of UCITS net assets at end 2023. EUR held the predominant position with 44% of net assets, followed by USD at 37% and GBP at 19%. The proportion of EUR MMFs declined from 49% in 2013 to 37% in 2019, as the demand for USD- and GBP MMFs increased over the same period, influenced by generally higher interest rates in those currencies. In 2023, the market share GBP declined from 24% to 19% and the share of EUR MMFs increased from 40% to 44%.

2.68: Money Market Fund UCITS - Asset Allocation - Currency Breakdown
(Percent)

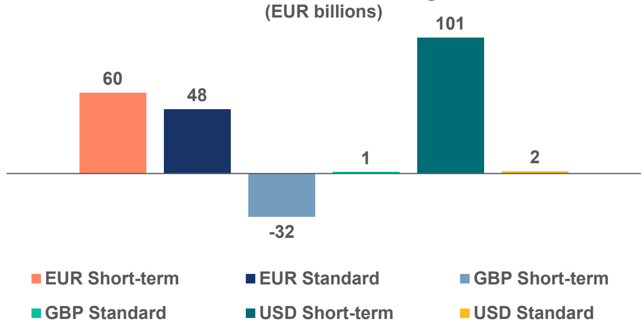


Source: EFAMA's calculation based on Morningstar data

Net sales of short-term MMFs in 2023. In 2023, investors showed a clear preference for short-term USD and EUR MMFs, whereas GBP MMFs recorded net outflows. These outflows are most likely related to UK pension funds rebalancing their portfolios after having rushed into GBP MMFs during the gilt market turmoil of October 2022.

Net sales of standard MMFs in 2023. Standard MMFs mainly recorded flat net sales over the year, with the exception of standard EUR MMFs, which attracted EUR 48 billion in net new money. These standard EUR VNAV MMFs are mainly used in France, where they play an important role in the cash management of many French corporations.

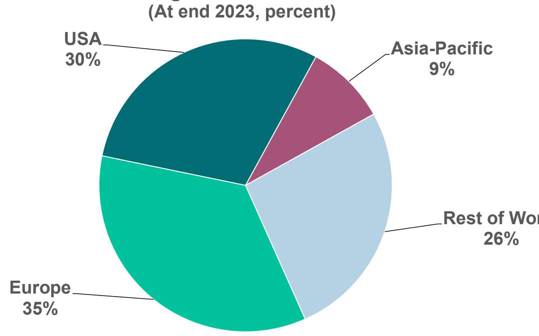
2.69: Net Sales of Money Market Fund UCITS in 2023 - Selected Fund Categories
(EUR billions)



Source: EFAMA's calculation based on Morningstar data

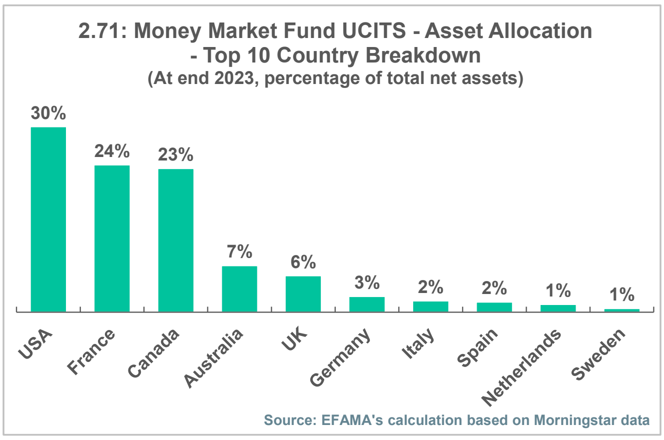
Asset allocation - Regional breakdown. An overview of the 2023 holdings of MMFs by geographical region[xiii] shows that 35% of the short-term paper held by UCITS MMFs was issued in Europe. The US accounted for 30% and Asia-Pacific for 9%. Another 26% was issued in other countries, predominantly Canada and Australia.

2.70: Money Market Fund UCITS - Asset Allocation - Regional Breakdown
(At end 2023, percent)

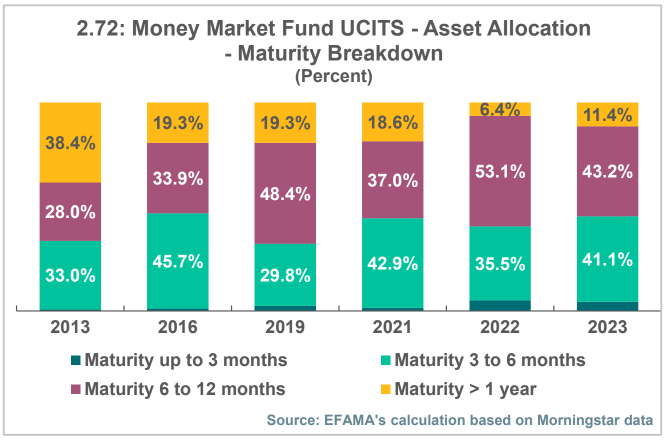


Source: EFAMA's calculation based on Morningstar data

Asset allocation - Country breakdown. After the US at 30%, short-term securities issued in France and Canada accounted for 24% and 23% of MMF assets, respectively, at end 2023. Australia (7%) and the UK (6%) completed the top five. A comparison of the asset breakdown by base currency and issuing country reveals that MMFs with a USD or GBP base currency allocated a significant portion of their assets to securities issued in a non-base currency country. Frequently, countries such as Canada or Australia (and companies based there) issue short-term debt in a major currency to attract more international investors. MMFs may also invest in debt denominated in a non-base currency and subsequently hedge the currency exposure. The MMFR does require, however, that all non-base currency exposures are fully hedged.



Asset allocation - Maturity breakdown. European MMFs have seen considerable shifts in the maturity composition of their asset holdings over the past decade. Since the bulk of the fixed-income holdings of MMFs usually have a maturity of less than one year, the maturity breakdown can change entirely from one year to the next. The vast majority of fixed-income holdings had an average maturity of between three and 12 months. At end 2023, a little over 43% of the fixed-income assets of MMFs had a maturity between six and 12 months, while 41% had a maturity of between three and six months. Over the past decade, there has tended to be a general decline in the proportion of bonds with a maturity exceeding one year. On the other hand, the percentage of fixed-income holdings with a maturity shorter than three months, although generally quite small, has increased over the two most recent years.



Box 3
FASTER withholding taxes and the art of the possible in the context of the CMU

Author: **António Frade Correia**

The challenges posed by the existence of 27 different tax systems significantly impede liquidity and dissuade investors from exploring opportunities across EU Member States. It is unsurprising that investors have been suffering substantial annual losses due to inefficient and cumbersome withholding tax (WHT) relief or refund procedures for cross-border investments within the EU. Moreover, existing systems often lack robust mechanisms to prevent fraudulent claims for WHT relief, with a significant impact on some Member States' public coffers over the past decades.

On one hand, **investors' losses** are estimated to range **from EUR 6.62 to EUR 8.4 billion annually** (based on the European Commission's 2016 estimates, updated in 2022), accounting for compliance, opportunity costs and double taxation due to existing inefficiencies; on the other, **public tax losses from recent tax fraud scandals** are projected at **EUR 150 billion** for the period 2000-2020. While these figures are imprecise, they provide a benchmark for understanding the grievances of both the private and public sectors. It suggests that an annual recovery amount of around EUR 7.5 billion for each side for costs and losses would certainly bring greater tax justice to the EU.

This imbalance was well understood by policymakers, and is reflected in **the FASTER Directive**, which was crafted as a delicate **balance between efficiency and security**. Following several years of collaboration between TAXUD, FISMA, tax authorities and stakeholders representing the interests of both EU and non-EU investors, the Commission released its Capital Markets Union (CMU) proposal in June 2023.

After extensive consultations with stakeholders - including business representatives, investors, financial intermediaries and national tax authorities - the Commission had to present **a pragmatic legal proposal that strikes a balance between ambition and realism**. **The Directive** presented for approval and implementation does not necessarily align with the preferences of most market participants. Rather, it **represents the art of what is a feasible compromise for all Member States, with the overarching goal of constructing and delivering a CMU**. Ideally, for EFAMA, all Member States would agree to abolish WHT for payments made to investment funds (UCITS and AIFs), tax neutrality would be respected and double taxation would be eliminated. We hope with this Directive Member States are taking another step forward on that direction.

When designing and deciding on the tax policy options, the Commission had to take into account the reality that existing systems - despite their inefficiencies - had to be maintained. **The legal text was drafted to introduce limited harmonisation measures** (at least in substance), as Member States will maintain control of the procedures and **claimants' entitlement rights to relief at source and/or refund of WHTs will continue to be ruled on by national legislation and/or double tax treaties.**

The Directive has the potential to harmonise procedures, rectify inefficiencies, mitigate fraud-related costs and eliminate double taxation, fostering a deeper integration of EU capital markets. This is an opportunity to create an appealing investment landscape for international investors. We should also trust that **implementing streamlined and effective WHT procedures can provide an additional source of finance for sustainable businesses based within the EU**. The overarching objective is to create uniform standards, and enhance investor confidence. The Commission's balanced solution and the measures to be implemented should allow investors and tax authorities to recover their losses, and **the EU may be repositioning itself to enhance its global competitiveness and attract foreign investment**.

Member States are being invited to move forward on a solution that should be implementable in the short term; however, they should not lose sight of the fundamentals that need to be respected in the long run. All Member States will be empowered to issue common EU digital tax residence certificates. This should be seen as a welcome departure from the burdensome paper-based procedures and another step in lifting the existing barriers to the CMU project. Tax authorities and future Certified Financial Intermediaries (CFIs) are being empowered with additional tools to streamline and speed up investor's reliefs/reclaims from excess withholding tax with the use fast-track procedures. At the same time new measures will be implemented to combat fraud.

After several years of collaborative effort involving the European Commission, national tax authorities, industry representatives and the Spanish and Belgian Council Presidency teams, the EU Ministers of Finance recently reached a political agreement on this relevant file. This is to be welcomed and **the dedication, diligence and unwavering efforts of all the technical teams involved in crafting the FASTER Directive deserve to be lauded.**

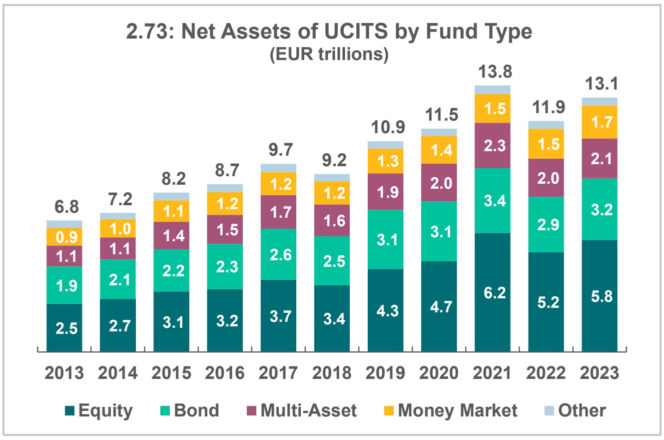
As we proceed, the monitoring and evaluation mechanisms at our disposal will play a pivotal role in assessing the true impact of the FASTER Directive once implemented. **If the Commission's projections for the positive impact of the proposal on investors' savings prove robust (approximately EUR 5.17 billion per year), this initiative would be another significant stride in building a robust and integrated CMU.**

Once the proposal is formally adopted by the Council, implementing acts, national legislations and administrative guidance will need to be prepared and adopted by 31 December 2028 (to start applying in 2030). There is still work to do for all stakeholders, and **incorporating business perspectives into the legal framework will optimise the proposal to ensure its practical effectiveness**. Regular reviews and an ongoing dialogue between relevant policymakers - both technical teams and political bodies - and business representatives will be critical. We trust the Commission and Member States will continue to rely on our industry's advocacy efforts when working on these ultimate details of the Directive

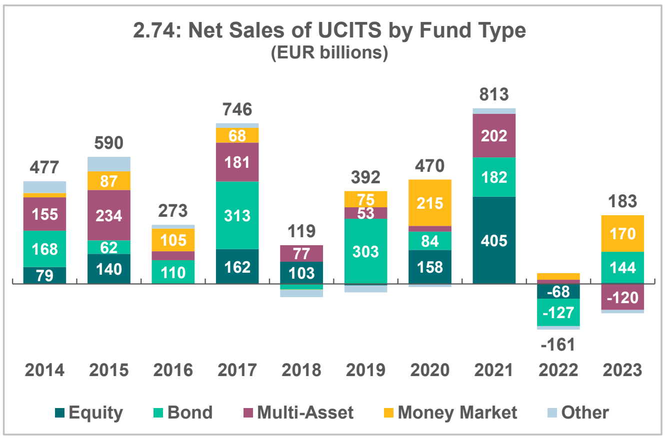
Let's continue in this positive direction, together.

2.3.7 UCITS by type of fund

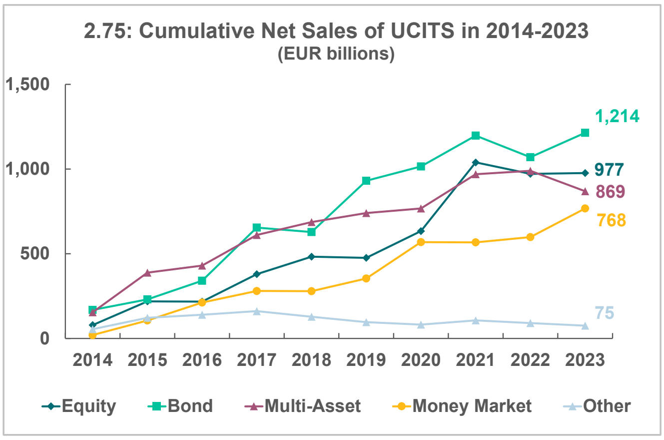
Net assets by UCITS type. In general, the evolution of net assets of UCITS by fund type tends to mirror that of the financial markets. Net assets grew between 2012-2017 and 2019-2021, when the performance of the markets was broadly strong. Conversely, when financial markets fell, such as in 2018 and 2022, asset growth turned negative. 2023 was an overall good year for capital markets as valuations of both stock and bonds increased. This was reflected in the net assets of major types of long-term UCITS funds, all of which all ended the year higher, albeit without exceeding the record values of end 2021. MMFs did, however, rise to an absolute record in 2023.



Net sales by UCITS type. A strong demand for fixed-income funds marked 2023. Bond UCITS attracted solid net inflows (EUR 144 billion) as interest rates stabilised at a higher level. Net sales of MMFs were also high (EUR 170 billion) as the inverted yield curve made these types of funds particularly attractive. Net sales of equity UCITS were broadly flat (EUR 5 billion) and multi-asset UCITS saw net outflows of EUR 120 billion.



Cumulative net sales over the past decade. Bond UCITS attracted the greatest cumulative net inflows over the past decade (EUR 1,214 billion), helped by strong net inflows in 2012, 2017, 2019 and 2023. Equity UCITS - despite flat net sales in 2023 - overtook multi-asset funds for second place, with cumulative net inflows of EUR 977 billion over the past decade. Cumulative net inflows were helped by solid net sales in 2015, 2017-2018, 2020 and, notably, the record net sales of 2021. Multi-asset funds were in third place, with net sales totalling EUR 869 billion over the past ten years, pushed down by net outflows of 2023. MMFs attracted cumulative net inflows of EUR 768 billion, thanks mainly to exceptionally high net sales in 2020 and 2023. Other UCITS accounted for EUR 75 billion, pushed down by net outflows in 2018-2020 and 2022-2023.

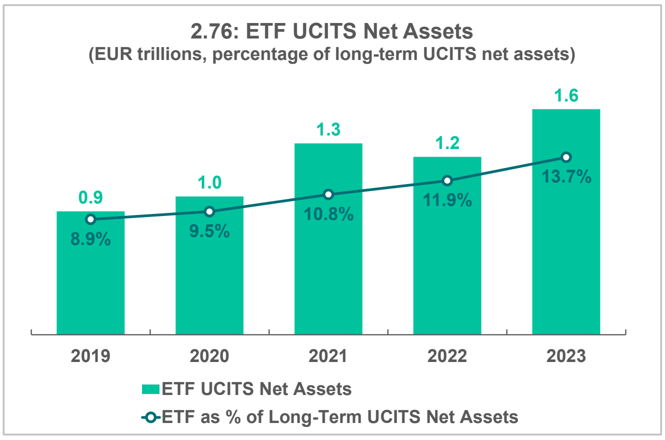


2.3.8 ETF UCITS

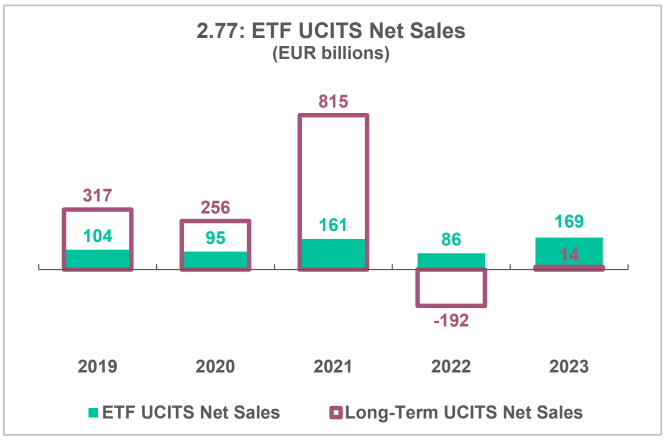
What are ETFs (Exchange-Traded Funds)? ETFs are pooled investment vehicles, with shares that investors can buy and sell on a stock exchange throughout the day at a market-determined price. ETFs usually track an index, with a portfolio of securities designed to mirror its rises and falls, which is why the vast majority of ETFs are passive funds. In recent years, a few active ETFs have been set up, but so far these represent only a small fraction of the total European ETF market (1.6% at end 2022).[xiv] ETFs are an increasingly popular investment instrument, thanks to their flexibility, liquidity and cost efficiency. They combine the low cost and broad diversification of investment funds with the real-time pricing and trading of equities.

UCITS ETFs. In Europe, the vast majority of ETFs are created as UCITS and are therefore subject to a robust regulatory framework. Within EFAMA statistics, ETFs are treated in the same way as other funds, but they are also considered as an 'of which' category, that is, they are included within their underlying fund type: equity, bond or other.

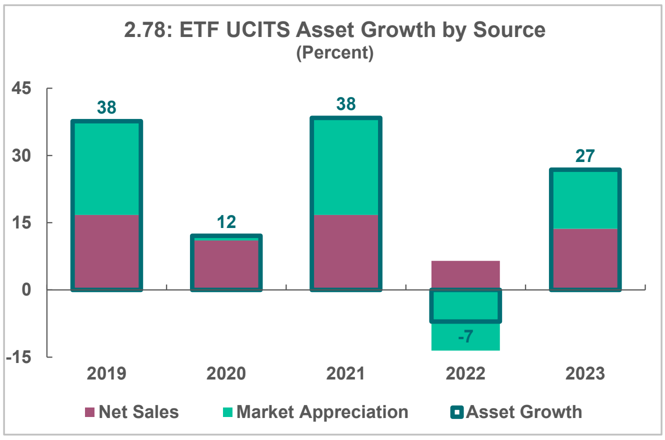
Net assets of ETFs. Over the last five years, the ETF market has experienced rapid growth, with net assets increasing from EUR 900 billion in 2019 to EUR 1.6 trillion by end 2023. As a proportion of long-term UCITS net assets, ETFs also continued to grow rapidly, rising from 8.9% in 2019 to 13.7% by end 2023.



Net sales of ETFs. In 2023, ETF net inflows soared to an all-time high of EUR 169 billion. Throughout the past five years, ETFs have consistently attracted net inflows, even during periods when overall long-term UCITS flows were negative, as was the case in 2022. This highlights the continuing shift of investors increasingly incorporating ETFs into their asset allocation decisions.

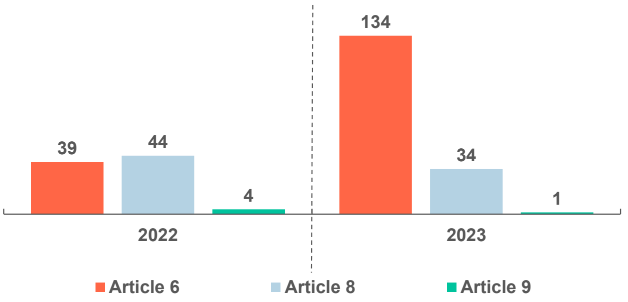


Breakdown of net asset growth. Net assets of UCITS ETFs rose by 27% in 2023, a stark reversal of to the asset decline of 7% in 2022. Breaking down the 2023 total growth shows that around half of total growth was due to net sales and half due to market appreciation. The annual asset increase of ETFs was almost three times higher than that of long-term UCITS in 2023 (27% compared to 10%).



Net sales of SFDR funds. Net sales of ETF UCITS by type of SFDR fund show that Article 6 and Article 8 ETFs attracted the bulk of net sales, both in 2022 and 2023. Article 9 funds registered net sales of only EUR 4 billion. This allocation of net sales stands in sharp contrast with what we observed for long-term UCITS in general. These relatively low net inflows into Article 9 ETFs can be explained by the nature of ETFs, which mainly track an index of a wide variety of stocks. Often, not all the stocks tracked by an ETF comply with the SFDR Article 9 sustainability objectives; this effectively bars these funds from being designated an Article 9 classification. The development of green or ESG-compliant indices has the potential to enhance the future growth of Article 9 ETFs.

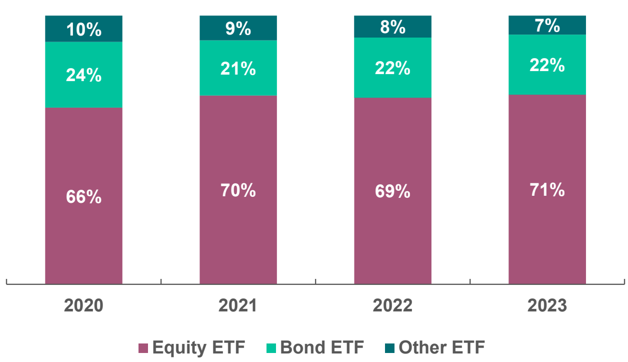
2.79: Net Sales of ETF UCITS by SFDR Fund Type
(EUR billions)



Source: EFAMA's calculation based on Morningstar data

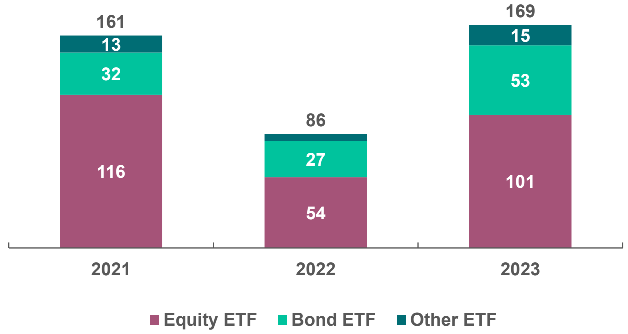
Breakdown of net assets per ETF type. Examining the specific categories of ETF funds, equity ETFs made up the largest share of the overall market at end 2023, comprising 71%, followed by bond ETFs at 22%; other ETFs made up 7%. These proportions have remained relatively stable in the last three years.

2.80: Net Assets of ETF UCITS
(Percent)



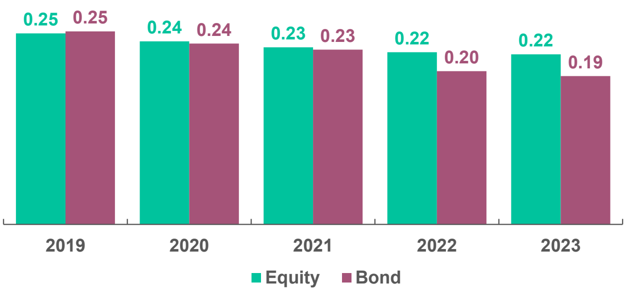
Breakdown of net sales per ETF type. Net ETF sales generally showed a similar picture to that of the net assets. Net sales of equity ETFs (EUR 101 billion) accounted for 60% of the total. Bond ETFs net sales (EUR 53 billion) represented 30% of the total, with other ETFs (EUR 15 billion) making up 8%. This situation was broadly comparable with 2021-2022, when equity ETFs also accounted for the bulk of net sales.

2.81: Net Sales of ETF UCITS
(EUR billions)



Cost of UCITS ETFs. ETF UCITS costs tend to be broadly on a par with those of passive funds. In terms of the recent evolution, ETF charges - as with most types of funds - have gradually decreased over the last five years. Equity UCITS ETFs have reported a decrease from 0.25% in 2019 to 0.22% in 2023. For bond UCITS ETFs, this decrease was even greater - from 0.25% in 2019 to 0.19% in 2023.

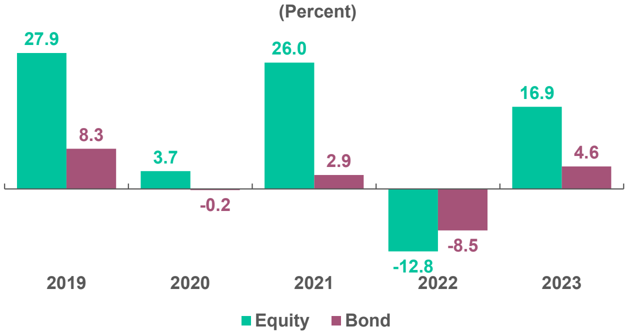
2.82: Average Annual Ongoing Charges of ETF UCITS
(Percent)



Source: EFAMA's calculation based on Morningstar data

Net Performance of UCITS ETFs. As with overall equity and bond UCITS, ETFs have also made a strong recovery in 2023, with equity UCITS ETFs reporting a performance - net of costs - of 16.9% in 2023, while the net performance of bond UCITS ETFs was 4.6%.

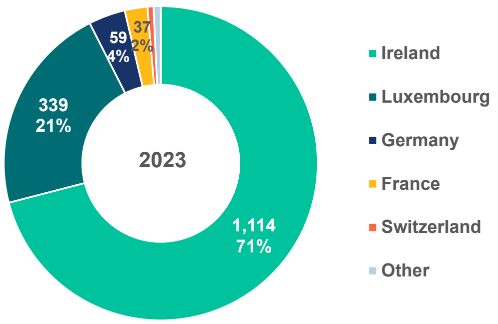
2.83: Average Annual Net Performance of ETF UCITS
(Percent)



Source: EFAMA's calculation based on Morningstar data

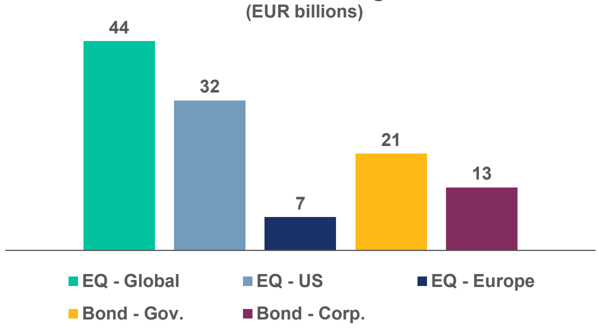
Breakdown by domicile. The European ETF market is heavily concentrated. At end 2023, Ireland represented 71% of all European ETFs. Luxembourg followed with 21%, then Germany at 4% and France at 2%. Other European domiciles play a negligible role in the ETF market.

2.84: Top 5 Country Shares in ETF UCITS Net Assets
(EUR billions, percent)



Net sales of selected ETF categories. The bulk of new money went into equity ETFs tracking a global index (EUR 44 billion), followed by US-centric ETFs (EUR 32 billion). ETFs tracking a European stock index did attract net inflows - unlike total equity UCITS - but these were relatively muted (EUR 7 billion). Other types of equity ETFs, such as UK-focused or sector-specific ETFs registered flat or even negative net sales. In the bond segment, government bond ETFs attracted EUR 21 billion and the net sales of corporate bond ETFs amounted to EUR 13 billion. Net sales of more-risky ETFs, such as emerging markets or high yield, were close to zero in 2023.

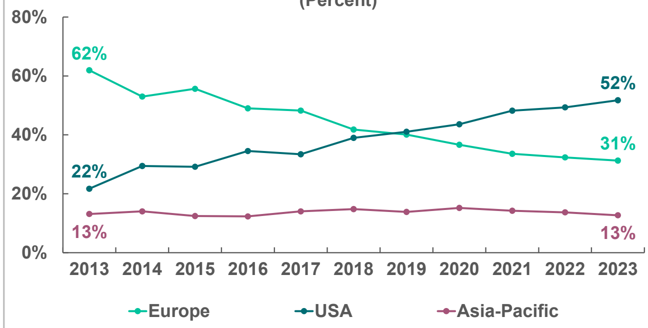
2.85: Net Sales of ETF UCITS in 2023 - Selected Fund Categories
(EUR billions)



Source: EFAMA's calculation based on Morningstar data

Asset allocation – Regional breakdown. Examining the regional asset allocation of ETF assets shows similar trends to general equity UCITS; however, the shift from European assets to US assets was even more pronounced. In 2013, 62% of ETF assets were European; by end 2023 this had halved to 31%. Concurrently, the share of US assets rose from 22% to 52%. The reason for this shift is the superior performance of US stock markets this past decade, drawing in investors to ETFs tracking US indices. The high weight of US stocks in most global indices also played a role, as strong inflows into global ETFs would then automatically lead to a growing market share of US stocks and bonds in the asset allocation of European ETFs.

2.86: ETF UCITS - Asset Allocation - Regional Breakdown
(Percent)



Source: EFAMA's calculation based on Morningstar data

Box 4
ESG ratings: Untangling the jungle

Author: **Chiara Chiado**

Environmental, social and governance (ESG) considerations have – for numerous reasons - become a vital factor in asset managers' investment decisions. First, there is an increasing understanding that ESG considerations can have a significant impact on a company's financial success and long-term viability. Second, there is a growing demand from investors - both retail and institutional - for investment solutions that incorporate ESG factors. Third, there are regulatory requirements in Europe - such as the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy Regulation and Shareholders Rights Directive (SRD II) - aimed at integrating ESG considerations into the established investment processes.

Regulations and market trends require asset managers to consume and analyse an extensive amount of ESG data. As a consequence, in recent years we have seen market research providers and sustainability rating agencies substantially increase their efforts to collect and analyse data and provide ESG ratings to investors. However, despite the improvement, both users and companies noted issues with the reliability, accuracy and timeliness of the ESG ratings and data. Therefore, after analysing the result of the dedicated impact assessment study, the European Commission decided in June 2023 to present a proposal for regulating ESG ratings activities.

The main improvements that the Regulation will bring

The Regulation will enhance transparency in several significant ways. First, it mandates website disclosure requirements for ESG rating providers, ensuring that the public can access vital information on the methodology and data sources used in ratings. This includes disclosing whether ratings are aggregated or cover individual ESG factors, as well as specifying the weighting method used and any limitations in methodologies and data sources. Second, the Regulation requires rated entities to be notified at least two working days before ratings are issued, thus empowering them to request data used for the rating. Third, it establishes an exemption regime for small providers, with clear criteria for determining eligibility for exemption. By implementing fair, reasonable, non-discriminatory and transparent (FRANDT) fee requirements and introducing a transitional regime for certain providers, the Regulation ensures that all stakeholders are aware of the processes and criteria involved in ESG ratings. This enhances the overall transparency of the ESG rating market.

Concerns that still need to be addressed

The concentration of ESG data providers has created an oligopoly, leaving EU market actors in a vulnerable and captive position when it comes to acquiring ESG information. As IOSCO has previously pointed out, the market is dominated by a few major providers, giving them substantial leverage and the opportunity to charge high rates. This may negatively impact both end investors and smaller market players with fewer resources to buy data. In addition, in the ESMA progress report on greenwashing, clarity around ESG data has been identified as a key factor in minimising greenwashing risks and guaranteeing investors more reliable and complete information. The co-legislators decided against regulating ESG data products in the current proposal, but agreed that the Commission should evaluate the application of this Regulation within four years of its entry into force.

Conclusions

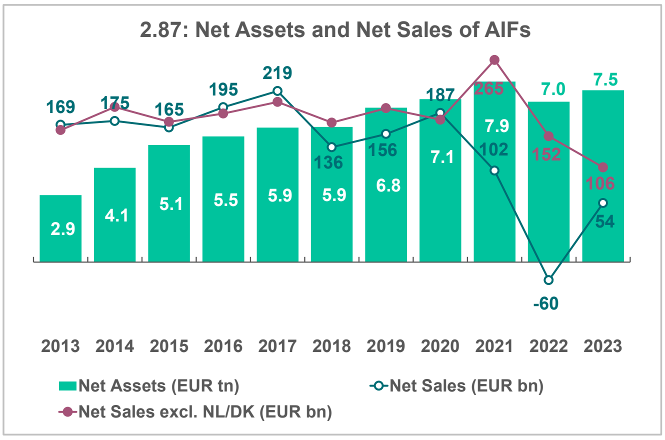
Asset managers understand that regulating data in this area is complex, but concerns remain over the failure to address the problem of unreliable data, even in the guise of soft law. The UK's Financial Conduct Authority (FCA) recently instituted regulatory oversight of ESG data and ratings through a voluntary code of conduct. To bolster investor trust and ensure equitable treatment between EU- and UK-based investors, it is vital to explore measures beyond the review clause at EU level.

2.4 THE AIF MARKET

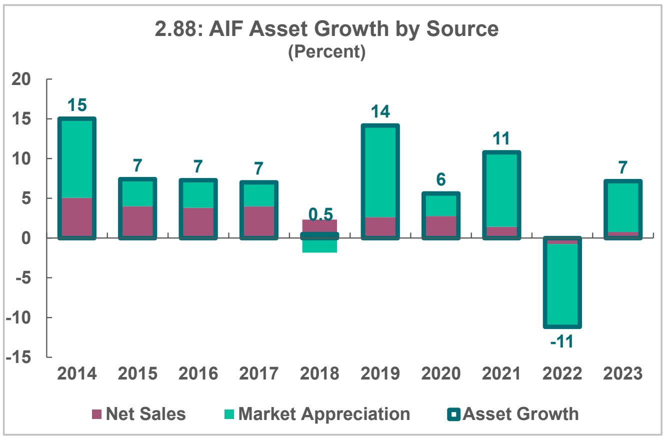
2.4.1 Overview

Trends in the AIF market[xv] are typically less overtly influenced by developments in capital markets than those for UCITS. This is because AIFs allocate a greater proportion of their assets to alternative financial products, such as private equity or real estate. Moreover, the primary buyers of AIFs - pension funds and insurers - often exhibit counter-cyclical investment behaviour, seizing opportunities during stock market downturns to increase their AIF purchases.

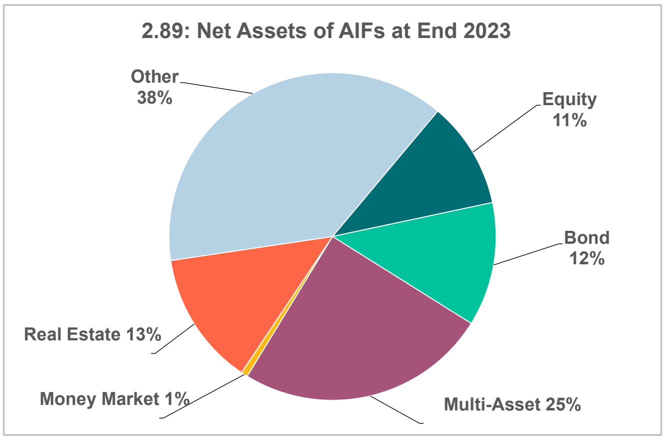
Net assets and net sales of AIFs. Net AIF assets rose to EUR 7.5 trillion in 2023 from EUR 7.0 trillion in 2022. Net sales in 2023 also recovered (EUR 54 billion) compared to net outflows of EUR 60 billion the year before. Net AIF sales in 2021-2022 were heavily impacted by the sizeable net outflows in the Netherlands and, to a lesser extent, Denmark. These were a result of the decision by certain large pension funds to manage their assets in segregated mandates, rather than in AIFs, due to the new IFR/IFD prudential rules. This trend continued but slowed somewhat in 2023, as net outflows in the Netherlands (EUR 21 billion) were not nearly so large as in 2022 (EUR 181 billion).



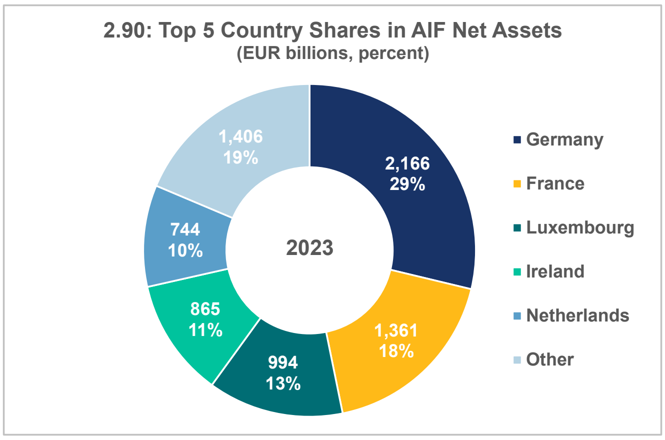
Breakdown of net asset growth. The combination of net inflows and market appreciation resulted in a rebound of asset growth in 2023 following the 2022 decline. As AIFs have a lower exposure to equity than UCITS, their 2023 market appreciation was also somewhat lower, 7% compared to 10% for UCITS.



Breakdown by type of fund. AIFs can be broken down according to their overall investment strategy. At end 2023, 'other' AIFs were the predominant type, with a 38% share. Multi-asset AIFs accounted for 25% of the total market, followed by real estate funds (13%), bond AIFs (12%) and equity AIFs (11%).



Breakdown by AIF domicile. The top five domiciles in the AIF market collectively held 81% of net assets at end 2023. Germany was the largest AIF domicile with a 29% market share, followed by France with 18%, Luxembourg with 13%, Ireland with 11% and the Netherlands with 10%.



Net assets of AIFs by domicile. The following table shows the net assets of AIFs per domicile at end 2023, the respective AIF market shares of each domicile and the 2023 net asset growth. The larger domiciles all registered net asset growth, with France seeing the strongest increase (8%). Growth among the smaller domiciles was more mixed; Liechtenstein registered an annual growth of 139.8%, thanks to the creation of a large new fund. Hungary (59.6%), Turkey (36.9%) and Slovenia (34.8%) followed in the ranking. The greatest decline in net assets was in Romania (33.7%) - where a single large AIF sold a large portion of its assets - and in Belgium (24.7%), where the trend of public AIFs being converted into UCITS continued.

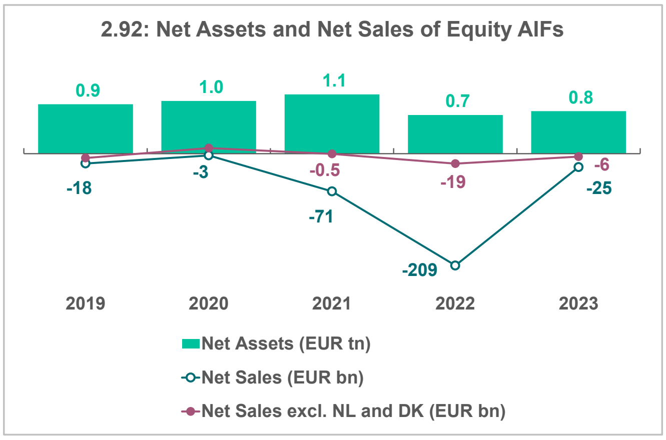
Net sales of AIFs by domicile. Liechtenstein led in terms of net sales (EUR 38.6 billion), followed by Germany (EUR 29.5 billion). AIFs domiciled in Denmark and the Netherlands registered net outflows of EUR 32 billion and EUR 21 billion, respectively. As explained above, these net outflows were a direct consequence of certain pension funds in Denmark and the Netherlands switching from AIF wrappers to segregated mandates. Net outflows in the Netherlands were considerably lower in 2023 (EUR 21 billion) than in 2022 (EUR 181 billion).

2.91: Net Assets and Net Sales of AIFs by Country

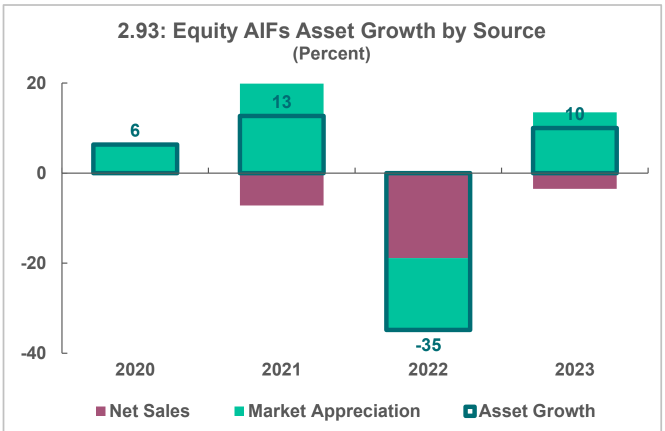
Country	Net Assets of Nationally Domiciled AIFs at End 2023			Net Sales of Nationally Domiciled AIFs	
	EUR bn	Market Share	Growth Rate	in 2023, EUR bn	Accumulated 2019 - 2023
Austria	113.8	1.5%	5.4%	-1.1	9.1
Belgium	1.6	0.02%	-24.7%	0.1	0.3
Bulgaria	0.1	0.002%	12.8%	0.0004	0.06
Croatia	0.5	0.01%	-17.5%		
Cyprus	5.8	0.1%	-16.7%	-1.6	0.3
Czech Republic	2.6	0.04%	6.4%	0.02	0.8
Denmark	102.3	1.4%	-18.1%	-31.6	-77.5
Finland	18.3	0.2%	-6.2%	-0.2	3.2
France	1,361.0	18.1%	8.0%	-8.7	-25.9
Germany	2,166.2	28.7%	6.6%	29.5	430.7
Greece	5.7	0.1%	8.7%		
Hungary	35.1	0.5%	59.6%	8.8	14.3
Ireland	865.3	11.5%	3.2%	-7.5	166.6
Italy	122.2	1.6%	8.9%	-0.2	13.7
Liechtenstein	92.1	1.2%	139.8%	38.6	51.4
Luxembourg	993.7	13.2%	4.5%	17.7	153.3
Malta	16.9	0.2%	-0.8%	-0.1	4.2
Netherlands	744.4	9.9%	6.0%	-21.2	-380.0
Norway	8.6	0.1%	n.a.	1.7	1.7
Poland	45.2	0.6%	24.1%	2.7	3.4
Portugal	15.2	0.2%	16.6%	-0.1	-0.1
Romania	3.6	0.05%	-33.7%	-0.01	-0.01
Slovakia	3.1	0.04%	10.9%	0.2	1.1
Slovenia	0.7	0.01%	34.8%		
Spain	37.7	0.5%	10.9%	2.5	-4.2
Sweden	27.1	0.4%	8.4%	-0.6	0.5
Switzerland	190.7	2.5%	10.7%	5.0	60.2
Turkey	19.2	0.3%	36.9%	1.5	3.7
United Kingdom	537.5	7.1%	10.7%	18.2	6.7
Europe	**7,536.2**	**100%**	**7.2%**	**53.6**	**437.5**

2.4.2 Equity AIFs

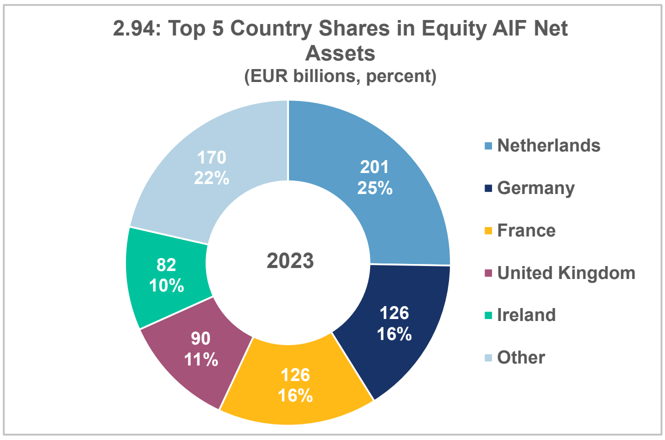
Net assets and net sales. Net assets of equity AIFs grew steadily in 2020 and 2021, pushed up by well-performing stock markets. In 2022, net assets plummeted to EUR 0.7 trillion, only to rise to 0.8 trillion again by end 2023. Net sales were negative over the last five years, with notable net outflows in 2022 (EUR 209 billion). The negative flows in 2022 - and to a lesser extent in 2021 and 2023 - were primarily attributed to developments in the pension fund sector in the Netherlands and Denmark. Excluding these two countries, net sales would have been close to zero in both 2021 and 2023.



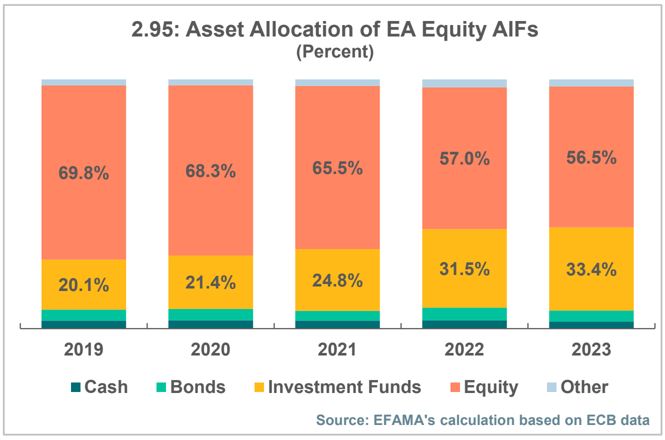
Breakdown of net asset growth. Net assets of equity AIFs rose by 10% in 2023. This was attributable to a market appreciation of 13%, which offset the 3% fall in net sales. In most years, net asset growth of equity AIFs was lower than that of equity UCITS, but this was mainly the result of negative net AIF sales. Indeed, the market appreciation of equity UCITS and equity AIFs has been quite similar in recent years. This could indicate that - at an aggregated level - the asset allocations of equity UCITS and AIFs are broadly comparable.



Breakdown by domicile. Looking at the AIF equity market by domicile at end 2023, the Netherlands continues to hold the largest market share (25%), despite a strong net asset drop in 2022. This was due to its sizeable pension fund industry, which often uses AIF wrappers for their pension funds. The Netherlands was followed by Germany and France (16%), the UK (11%) and Ireland (10%).



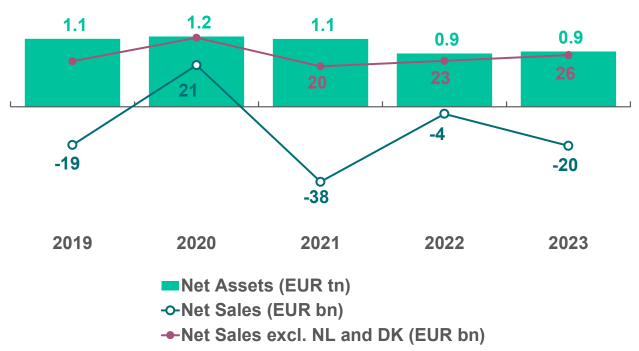
Asset allocation. The asset allocation of equity AIFs in the EA has shifted considerably in recent years. The notable decline of directly held stocks, and corresponding surge of investment fund holdings from 2021-2022, is mainly related to the aforementioned drop in the net assets of Dutch equity AIFs, which have a high direct exposure to equity. However, the proportion of funds has consistently increased year-on-year, not just in 2021-2022. This suggests that European AIF managers are increasingly turning to funds as an easy and cost-effective way to access diverse stock markets.



2.4.3 Bond AIFs

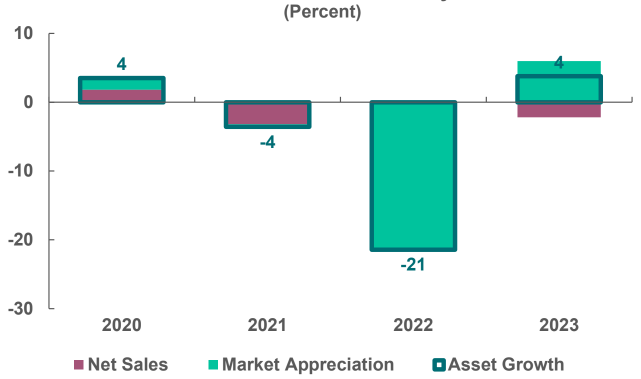
Net assets and net sales. Net assets of bond AIFs stood at EUR 0.9 trillion by end 2023 - close to the amount of 2022 - but lower than EUR 1.1 trillion of 2021. Net sales were negative in recent years. The net outflows in 2023 (EUR 20 billion) stand in contrast to the strong net inflows in bond UCITS but were – as in previous years - again primarily driven by Danish and Dutch pension funds moving away from AIF wrappers. Excluding Denmark and the Netherlands, net sales of bond AIFs would have been positive (EUR 26 billion).

2.96: Net Assets and Net Sales of Bond AIFs



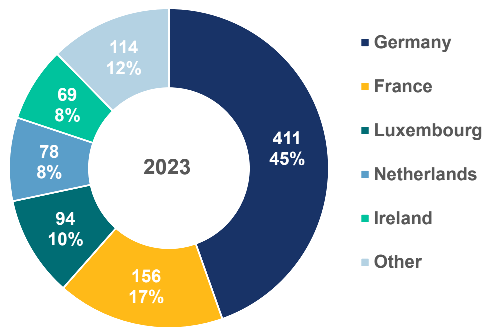
Breakdown of net asset growth. In 2023, net assets of bond AIFs grew by 4%. Rising bond prices were the main reason behind this increase (6%), as net sales were negative, accounting for -2% of the total asset change. The market appreciation of bond AIFs in 2023 was roughly equal to that of bond UCITS.

2.97: Bond AIFs Asset Growth by Source
(Percent)



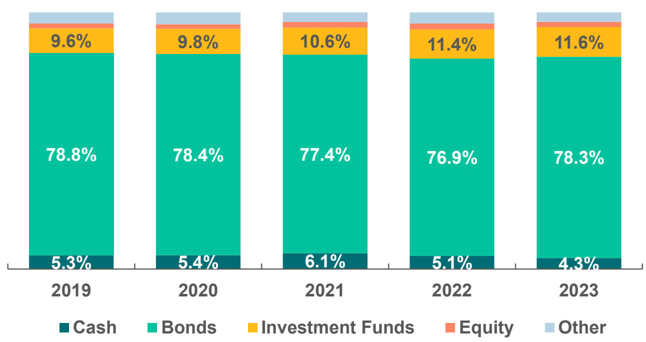
Breakdown by domicile. Germany stands out as the dominant domicile in the AIF bond market, with a substantial 45% share at end 2023. This is primarily due to its extensive institutional 'Spezialfonds' sector, which attracts investments from domestic insurers and pension funds. France, with its sizable insurance sector, was in second position with 17%. The remaining top five countries were Luxembourg (10%) followed by the Netherlands and Ireland, both with an 8% market share.

2.98: Top 5 Country Shares in Bond AIF Net Assets
(EUR billions, percent)



Asset allocation. Bond AIFs invest heavily in debt securities (78.3% at end 2023). The percentage of bond holdings has not shifted substantially over the past five years, with the exception of 2022, when it dipped as bond valuations fell. The share of investment funds is the lowest of all three main types of AIFs. Here also, however, the market share of funds has crept up, from 9.6% in 2019 to 11.6% in 2023.

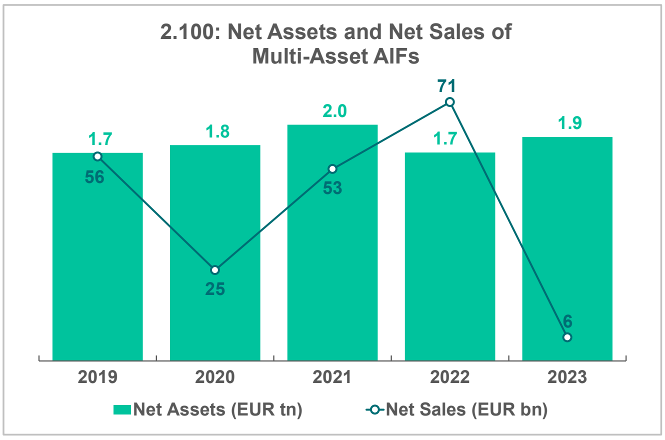
2.99: Asset Allocation of EA Bond AIFs
(Percent)



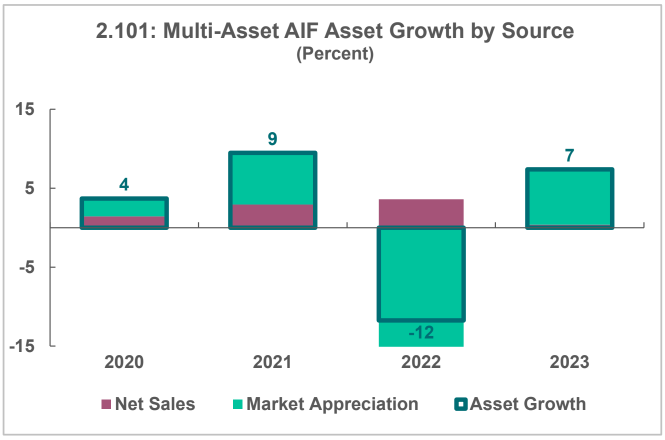
Source: EFAMA's calculation based on ECB data

2.4.4 Multi-asset AIFs

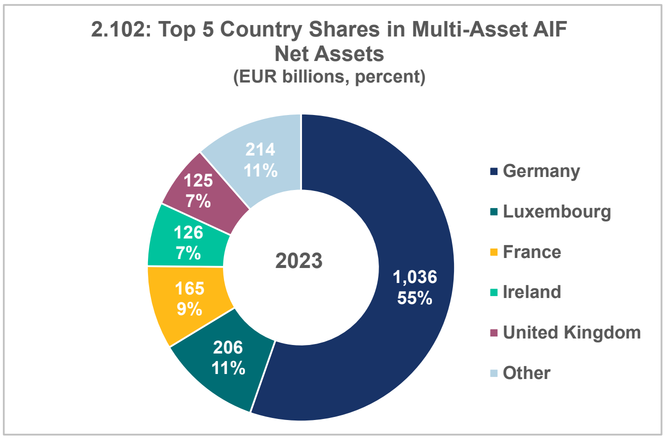
Net assets and net sales. Following the 2022 fall, net assets of multi-asset AIFs grew again in 2023, thanks to rises in both stock and fixed-income markets. At end 2023, net assets of multi-asset AIFs amounted to EUR 1.9 trillion. Net sales were positive during the previous years, but net inflows dropped to a five-year low in 2023 (EUR 6 billion). The significant drop in net inflows in 2023 was most likely caused by the same investor sentiments that resulted in the sizable net outflows from multi-asset UCITS (EUR 120 billion) that year.



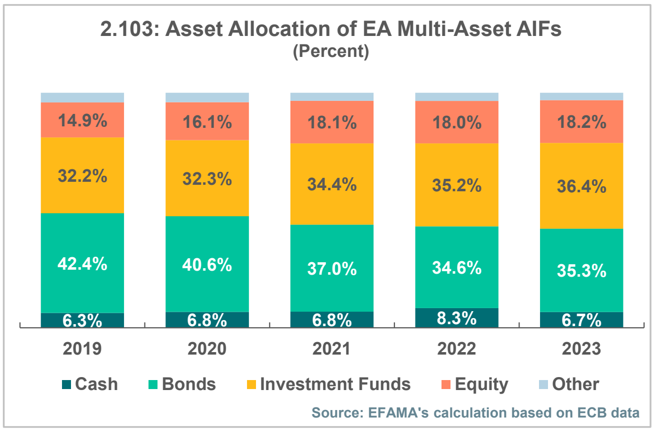
Breakdown of net asset growth. Net assets grew by around 7% in 2023, driven solely by rising stock and bond prices, as net sales were flat. Compared to a market appreciation of around 10% for multi-asset UCITS, market appreciation was lower for multi-asset AIFs. The different percentages indicate that the asset allocation of multi-asset UCITS and AIFs is more varied than those of equity or bond funds.



Breakdown by domicile. Even more so than in bond AIFs, it is German institutional 'Spezialfonds' that account for the majority of the European multi-asset AIFs market (55%) in 2023. Following Germany in the top five were Luxembourg (11%), France (9%), Ireland (7%) and the UK (7%).

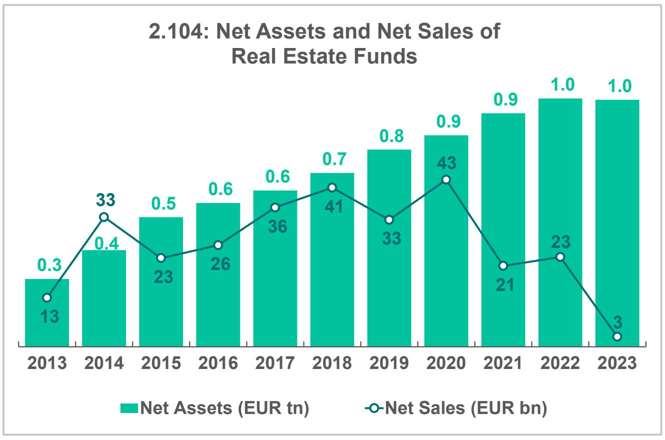


Asset allocation. Analysing the asset allocation of multi-asset AIFs reveals the steadily increasing market share of investment funds, from 32.2% in 2019 to 36.4% in 2023. The market share of directly held stocks rose compared to 2019, while that of debt securities declined. Compared to multi-asset UCITS, multi-asset AIFs had a lower share of directly held equity (18.2% compared to 25.1% at end 2023) and slightly higher shares of cash, bonds and investment funds. These differences in asset allocation explain the disparities in market appreciation between multi-asset UCITS and AIFs.

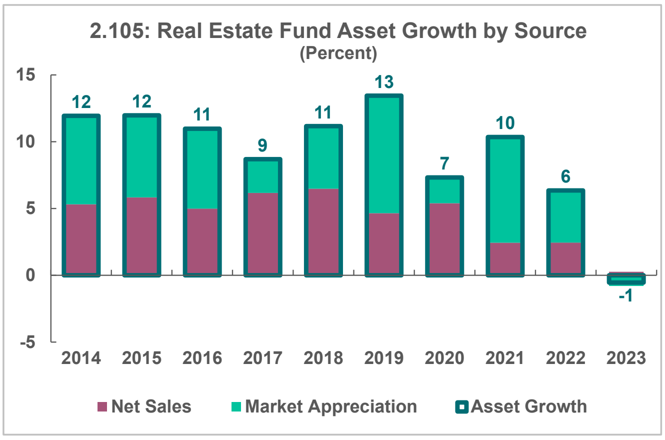


2.4.5 Real estate AIFs

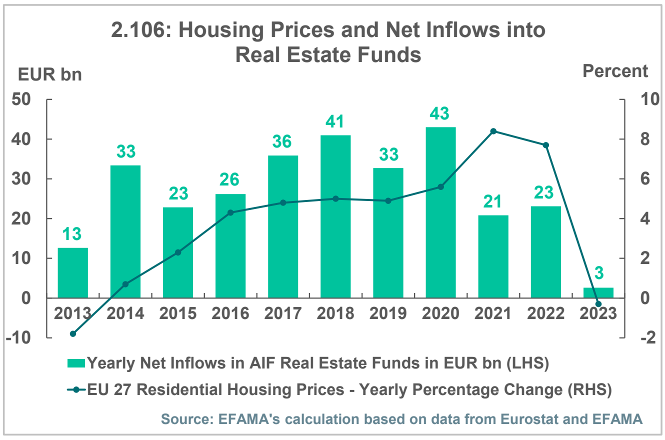
Net assets and net sales. Net assets of real estate funds closed 2023 at EUR 1 trillion, similar to 2022.[xvi] Real estate funds were the only major category of AIFs to register a decline in net assets during 2023. Net sales fell flat to EUR 3 billion from EUR 23 billion in 2022 and a record in 2020 (EUR 43 billion). During previous years, demand for real estate funds was boosted by low-interest rate levels. However, the 2022 interest rate hikes - via their impact on real estate prices - did compress demand for these types of funds.



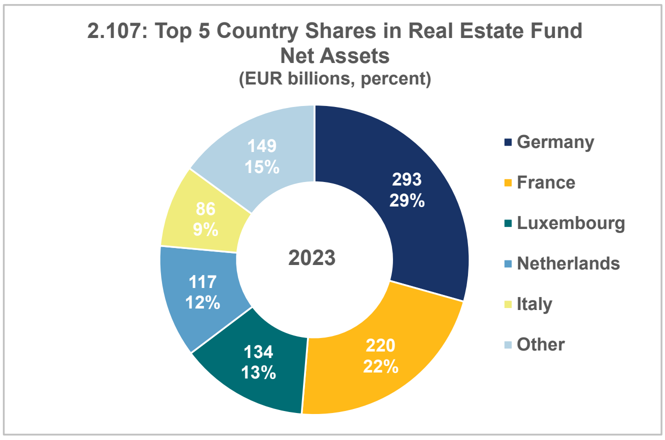
Breakdown of net asset growth. Real estate fund asset growth turned negative in 2023, the first decline of the decade. This was mainly due to net sales being close to zero and a 1% market depreciation effect. Strong rises in mortgage rates across Europe negatively impacted the valuation of residential and commercial real estate throughout the year.



Demand for real estate funds and housing prices. Demand for real estate funds tends to correlate positively with the evolution in housing prices. Strong growth in housing prices tends to coincide with higher net inflows into real estate funds and vice versa. The year 2023 strongly confirmed this correlation. A decrease in house prices across Europe - the first since 2013 - led to the net sales of real estate funds dropping close to zero.



Breakdown by domicile. At end 2023, Germany accounted for the largest share of the European real estate fund market (29%). France was the second-largest (22%), followed by Luxembourg (13%), the Netherlands (12%) and Italy (9%). The residual 15% was situated in other European domiciles.



Box 5
ELTIF 2.0 - The redesigned framework

Author: **Gwen Lehane**

The revamped European Long-Term Investment Funds (ELTIF) Regulation became applicable on 10 January 2024. This heralded important legislative changes designed to make the ELTIF fund structure more attractive to investors and more effective at channelling funds into the EU's real economy.

ELTIFs were created in 2015, as a new type of collective investment framework allowing investors - mainly institutional and high-net-worth retail investors - to channel funds into companies and projects requiring long-term capital. ELTIFs were an integral element of the European Commission's investment plan and Capital Markets Union (CMU), which were intended to strengthen Europe, supporting the achievement of the European green deal and digital agenda and channelling capital into the European real economy.

Key features of ELTIF 2.0

The ELTIF regime was reviewed and updated to address some of the main issues that have hampered the product's appeal since its inception. The review has reshuffled the key features of the products. With a broader range of eligible assets, more flexible rules for portfolio composition and fewer barriers to participation by retail investors, **ELTIF 2.0 has the potential to become a key enabling tool for mobilising capital to finance projects** such as transport and social infrastructure, sustainable energy generation or distribution and new technologies. The changes include:

- A broader scope of eligible assets, including a simplified definition of 'real' assets, an increased market capitalisation threshold and the possibility of investing in FinTechs, STS securitisations and green bonds.
- Flexible fund rules, with an increased pocket for liquid investments, more-flexible risk diversification requirements, the ability to invest in fund-of-funds and master-feeder structures, as well as using increased leverage.
- Improved access and safer conditions for retail investors, including removing the previous EUR 10,000 entry ticket and the minimum net worth requirement as well as harmonising the distribution regime through alignment of the ELTIF suitability test with MiFID II.

Key provisions relating to redemption and liquidity management will be set out in further detail in a delegated act to the Regulation. At time of writing, these terms are currently being discussed by ESMA and the European Commission. It is critical to ensure that these criteria provide sufficient flexibility for the ELTIF product to remain competitive and aligned with existing, market-standard approaches to redemption and liquidity management. Overly prescriptive redemption rules would undermine efforts to address the needs of retail investors, once again reducing the product's appeal.

Overview of the ELTIF market

The redesign of ELTIFs has generated **considerable interest among industry participants**. Between 2015-2021, only 57 ELTIFs had been established, with assets under management of approximately EUR 2.4 billion[1], domiciled in only four Member States. Currently - according to the ESMA register[2] - this has almost doubled to 101 ELTIFs launched in the EU. It is anticipated that **many more ELTIFs will be launched** once the delegated act to the Regulation enters into force, which will likely be in late 2024.

In terms of asset allocation, ELTIFs invest primarily in private equity, infrastructure and private debt. In terms of target groups, 60% of ELTIFs are sold to private and professional investors (private-client ELTIFs), while the remainder are reserved for institutional investors.[3]

In the years up to and immediately following the review of the regime, ELTIFs have been domiciled in only four European countries; Luxembourg, France, Italy and Spain. The first two still account for the vast majority of net assets and number of registered funds; however, more jurisdictions are expected to join in light of the new regime.

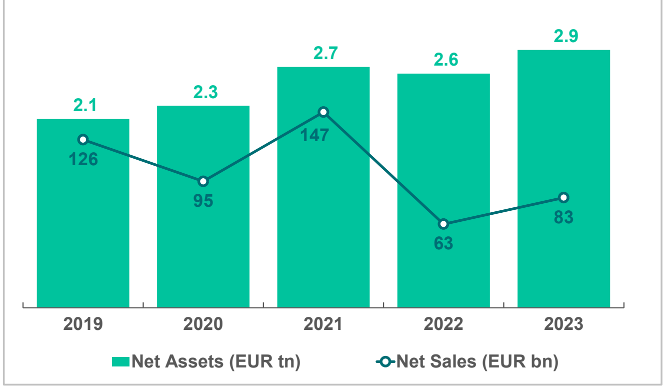
1 European Commission Impact Assessment Report accompanying the Proposal to amend the ELTIF Regulation.

2 As of April 2024

3 European ELTIF Study Market Survey and Outlook. Scope Fund Analysis, March 2023.

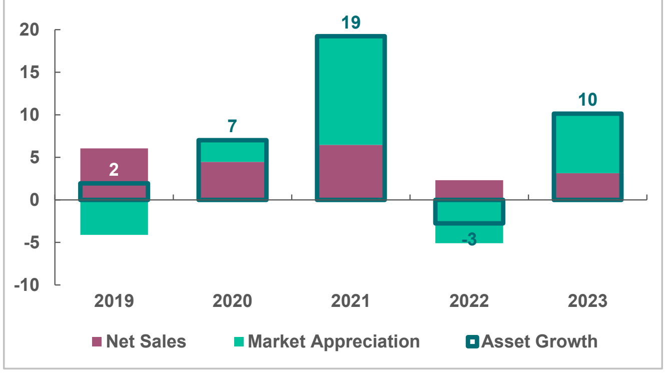
2.4.6 Other AIFs

Net assets and net sales. 'Other' AIFs are the predominant type of AIFs. These encompass a diverse array of fund categories, including securitisation, private equity, debt/loan and hedge funds as well as others such as commodities funds. What these funds have in common is that they all invest in alternative, less-liquid assets. Net assets of other AIFs experienced robust growth in recent years, reaching a record level of EUR 2.9 trillion in 2023. Asset growth was supported by strong net sales in most years. Net sales of other AIFs often accounted for the bulk of total AIF sales.



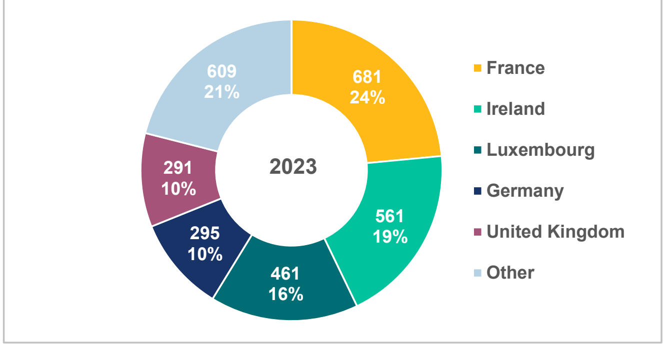
2.108: Net Assets and Net Sales of Other AIFs

Breakdown of net asset growth. Net asset growth was 10% in 2023 due to a combination of positive net sales (up 3%) and a market appreciation of 7%.



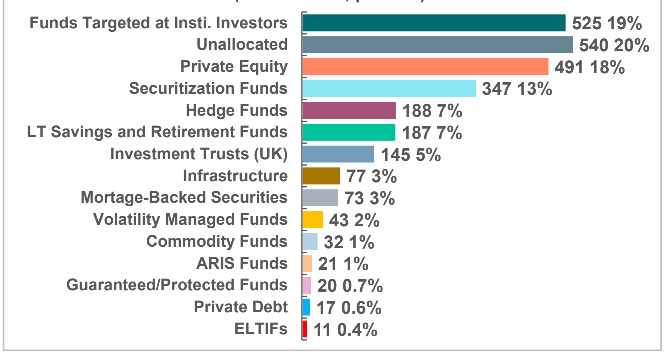
2.109: Other AIF Asset Growth by Source
(Percent)

Breakdown by domicile. France accounted for the largest proportion of the 'other' AIF sector in 2023 (24%). Ireland (19%), Luxembourg (16%), Germany (10%) and the UK (10%) make up the remainder of the top five.



2.110: Top 5 Country Shares in Other AIF Net Assets
(EUR billions, percent)

Detailed breakdown of other AIFs. Using data gathered from various national associations, we can zoom in on the diverse types of funds that make up 'other' AIFs. Several of the funds that make up a significant portion of the net assets are specific to one or a couple of European countries. German Spezialfonds and Luxembourg SIFs are investment vehicles aimed specifically at institutional investors. These are often funds-of-funds and are mostly classified as other AIFs because they invest in both securities and real assets. Securitisation funds and long-term savings and retirement funds are mainly concentrated in France, whereas investment trusts and volatility-managed funds are unique to the UK.



2.111: Estimated Breakdown of Other AIFs at End 2023
(EUR billions, percent)

CHAPTER 3: CROSS-BORDER FUNDS AND FUND OWNERSHIP

3.1 OVERVIEW

This chapter comprises three main sections. The first analyses recent trends in the net assets and net sales of cross-border and domestic funds in the European Union (EU).[xvii]

In the second section, we examine the ownership of investment funds in the EU, focusing on where funds are bought and who owns them, irrespective of their country of domiciliation.

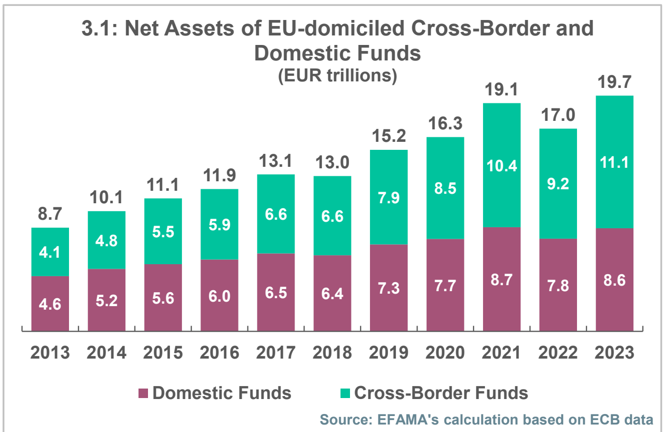
The final section takes a deeper dive into the changing portfolio composition of the key investors in investment funds; households, insurers, pension funds, long-term funds and other financial intermediaries.

3.2 CROSS-BORDER FUNDS

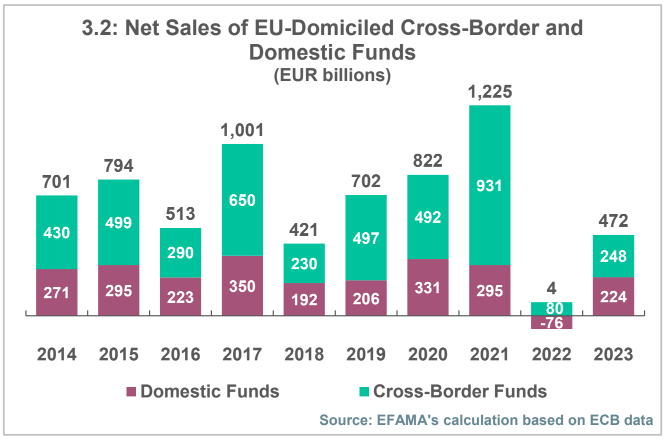
3.2.1 The cross-border fund market

Funds are sold in either the country where they are domiciled or internationally in another country. The first type is commonly referred to as domestic funds; the second are cross-border funds. The latter can be sold outside their country of domiciliation thanks to their EU passport.

Net assets of cross-border funds. Net assets of cross-border funds in the EU amounted to EUR 11.1 trillion at end 2023, compared to EUR 8.6 trillion for domestic funds. The share of cross-border fund assets has increased steadily over the last decade, growing from 47% in 2013 to just over 56% in 2023.

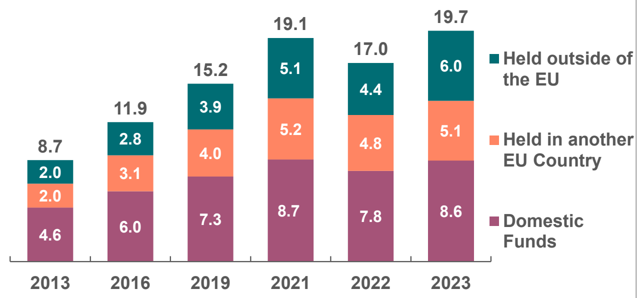


Net sales of cross-border funds. Growth in the market share of cross-border funds is being driven by stronger demand. Cross-border funds consistently outperformed domestic funds in terms of net sales throughout the past decade. There was a notable shift in 2022, marking the first year with net outflows from domestic funds (EUR 76 billion). Although net sales of cross-border fund also dropped significantly during that year, they remained positive (EUR 80 billion). In 2023, both types rebounded, with net sales of cross-border funds (EUR 248 billion) slightly surpassing domestic funds (EUR 224 billion).



Cross-border funds inside/outside of the EU. EU-domiciled cross-border funds[xviii] can be categorised into those sold and held in another EU country, and those sold and held outside the EU. Until relatively recently, the cross-border fund market was evenly split; approximately 50/50. However in 2023, the net assets of funds held outside of the EU amounted to EUR 6 trillion, considerably outstripping those of cross-border funds held in another EU country (which stood at EUR 5.1 trillion).

3.3: Net Assets of EU-domiciled Cross-Border and Domestic Funds
(EUR trillions)

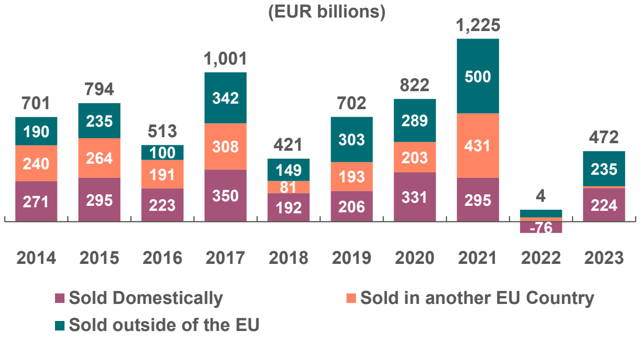


Source: EFAMA's calculation based on ECB data

Net sales of cross-border funds inside/outside of Europe.

Since 2018, cross-border funds sold outside the EU have consistently surpassed flows of both domestic and cross-border funds sold within the EU. In 2021, net sales of both types of cross-border funds reached record highs, while net sales of domestic funds declined slightly. In 2022, net sales of domestic funds turned negative, while net sales of cross-border funds remained positive, albeit at an extremely low level. 2023 saw net sales of domestic funds and cross-border funds outside the EU recover to EUR 224 billion and EUR 235 billion, respectively, while cross-border funds sold in another EU country recorded net flows close to zero.

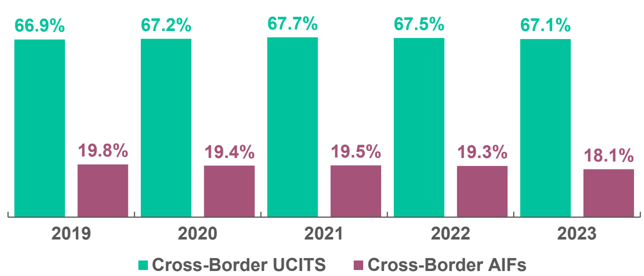
3.4: Net Sales of EU-Domiciled Cross-Border and Domestic Funds
(EUR billions)



Source: EFAMA's calculation based on ECB data

Net assets of cross-border UCITS and AIFs.[xix] Cross-border UCITS - as a percentage of total EU-domiciled UCITS – was quite stable in recent years around 67% of the total market. This indicates that - in the 2019-2023 period - the net assets of cross-border and domestic UCITS grew at a broadly similar pace. Cross-border AIFs have decreased slightly; between 2019 and end 2023, their share of the total EU AIF market decreased from about 20% to near 18%. In comparison to the UCITS market, the AIF market is still primarily focused on home-domiciled funds.

3.5: Market Shares of Cross-Border UCITS and AIFs
(Percentage of net assets of EU domiciled funds)



Source: EFAMA's calculation based on data from and ECB and EFAMA

Box 6
The European Union: an uncontested giant in global fund distribution?

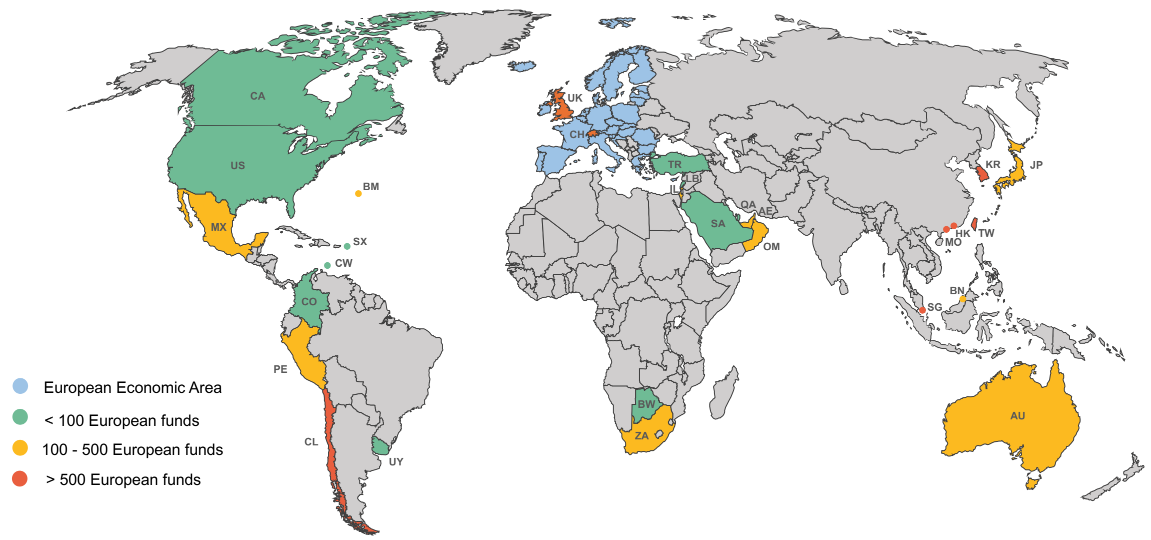
Author: **Marin Capelle**

As the European fund industry is the leader in the global distribution of funds, the European Union has to pay close attention to this dimension when considering upgrades and changes to the European fund model. It is often said that European funds represent the 'gold standard' for cross-border fund distribution; however, the extent to which these funds have been successful internationally is not always fully understood.

An international comparison indicates that European funds are not only the gold standard but also the by-default choice for the global distribution of funds. Looking at distribution figures, it is apparent that few non-European funds have cross-border operations. For instance, even in the United States, the largest fund market in the world, most funds invest exclusively on behalf of U.S. persons. According to the *PwC Global Fund Poster*, the global distribution of funds is concentrated in a dozen jurisdictions, among which several play the role of fund hubs for the broader region in which they are located (including Hong Kong and Macau for China, Singapore and Brunei for South-East Asia and Bermuda for the Americas). In each of these, European funds represent – in terms of the number of funds registered – at least 80% of the cross-border market. The only notable exception is Peru, where European funds account for only 50% of the cross-border market.[1]

This high penetration rate notably results from the fact that top cross-border management groups almost exclusively use European funds for their global distribution. One driver behind this choice is that, from a tax and distribution perspective, funds in other jurisdictions (including those domiciled in the United States) are not designed to offer unfettered access to foreign investors. Although the statistics are incomplete in this respect, the *Global Fund Poster* shows that many international groups do not have cross-border funds domiciled outside of Europe and that those that do typically only have a handful of them domiciled in either the United States or Hong Kong.

Distribution of European funds in the world (2023)



Source: PwC

1 PwC Luxembourg, *Global Fund Distribution Poster*, April 2024.

In terms of assets under management, the European investment fund industry has greatly benefited from its privileged access to foreign investors. As of 2023, the European industry managed EUR 6 trillion on behalf of non-EU investors; some 30% of the total of assets under management in the EU fund sector. Moreover, for the last decade, subscriptions by non-EU investors have accounted for a significant share of inflows into European funds. Since 2018, subscriptions by non-EU investors have amounted to at least 35% of annual net sales, compensating for the disappointing sales to European investors in some years (see charts 3.3 and 3.4). Non-EU clients investing in European funds pay annual management fees on the EUR 6 trillion held in these products. While it is impossible to determine the exact amount, one may speculate that non-EU investors pay tens of billions of euros into the European fund ecosystem every year. Transfer pricing rules specify how management companies can split these fees across their entire value chain. Best practices in transfer pricing notably require that a management company does not retain more than 10% of the fees. The EFAMA Market Insight 'Perspective on the cost of UCITS' shows that revenues received by UCITS fund managers are usually split as follows: The management company (including the portfolio manager) retains 40% of the fees, services providers such as transfer agents and depositories receive 15% of the fees, and the distributor 40%.[2] From the above, one can conclude that the European fund ecosystem retains at least 20-25% of the fees. The rest is distributed to the portfolio manager (which may be located outside of Europe for funds following global investment strategies) and to the distributors operating in the jurisdiction where the most sales occurred (which may be located outside of Europe should a fund be mainly distributed abroad). The above fee estimates are consistent with Eurostat statistics. Since 2015, the two leading European fund domiciles – Luxembourg and Ireland – have annually recorded more than EUR 30 billion in international exports in the Eurostat category of 'financial services explicitly charged to customers'.[3]

In spite of this, the European industry should not be complacent over its status as a global leader. The international distribution of UCITS funds is currently facing headwinds. A growing number of jurisdictions are reconsidering the access they offer to cross-border funds. For example, the United Arab Emirates has banned the direct distribution of such funds to retail investors, leaving nonetheless the possibility for foreign asset managers to set up master-feeder structures. Moreover, most jurisdictions with a developed asset management industry – such as the United Kingdom, Switzerland, Hong Kong, Singapore and Japan – are also trying to make their local funds more competitive. As a result of these pressures, the momentum behind European funds is already decreasing in some markets. This is notably the case in Hong Kong, where there have been no net registrations for at least a couple of years. For this reason, EFAMA called in its report 'Unlocking private investment to fund Europe's triple transition' for a degree of stability in the EU's regulatory framework. New policy initiatives can result in unforeseen effects abroad and raise questions as to whether the EU's framework still serves the best interest of non-EU investors.[4]

Therefore, let's celebrate this achievement while acknowledging that the continued success of European funds internationally requires continuous engagement with the local ecosystem, and in particular regulators, to highlight the benefits of the European expertise whether it is delivered through fund structures, like UCITS, AIFs, and ELTIFs, or in the form of a mandate.

2 EFAMA, Perspective on the cost of UCITS, Market Insight, Issue 6, September 2021.

3 Eurostat, International trade in services (since 2010), accessed on Friday 19 April 2024. While Eurostat does not have statistics on the proceeds of cross-border fund distribution, one can assume that most of the exports from the category 'financial services explicitly charged' result from this activity.

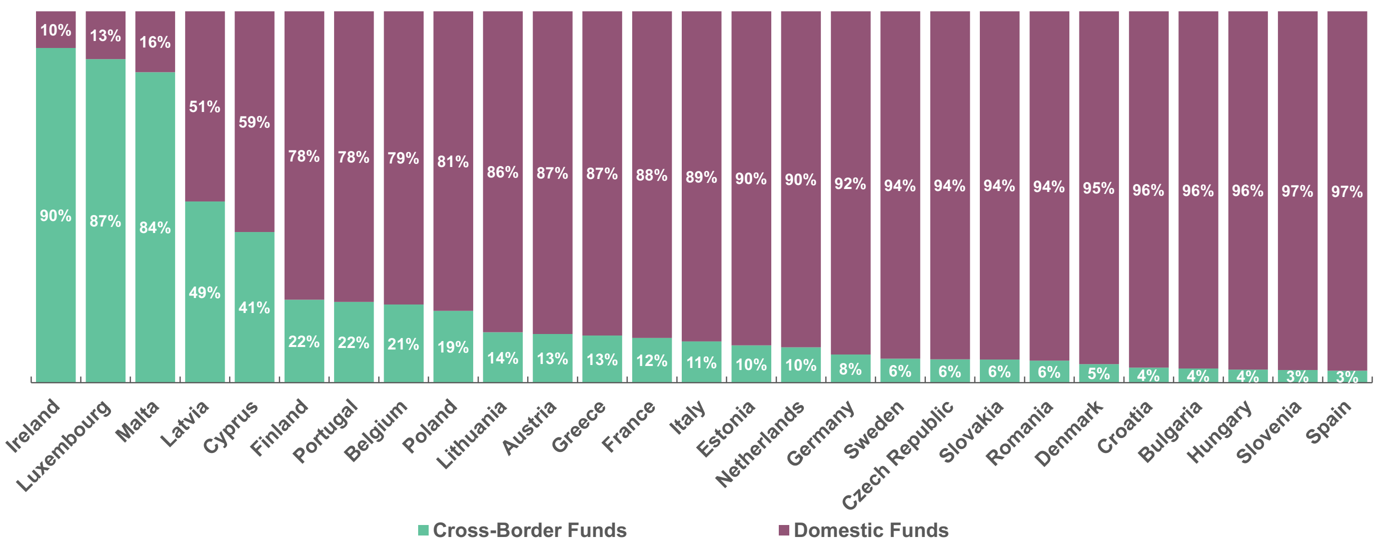
4 EFAMA, Unlocking private investment to fund Europe's triple transition: towards an enabling regulatory framework, March 2024.

3.2.2 Cross-border funds at national level

Domestic-focused markets. The vast majority of funds are held in the country in which they are domiciled. In 13 countries, more than 90% of the home-domiciled funds are held by local investors. Fund managers in these countries primarily focus on their domestic market, or they domicile the funds that they sell cross-border in one of the jurisdictions where most cross-border funds are domiciled.

Cross-border domiciles. The two main cross-border fund domiciles in Europe are Luxembourg and Ireland. At end 2023, 87% and 90% of the funds domiciled in these countries were held abroad. European and global asset managers leverage the economies of scale and expertise available in these countries to domicile their cross-border funds. Malta - and to a lesser extent Latvia and Cyprus - can also be considered cross-border fund hubs, as a significant portion of their home-domiciled funds are held abroad.

3.6: Cross-Border and Domestic Funds at End 2023
(Percentage of total net assets)

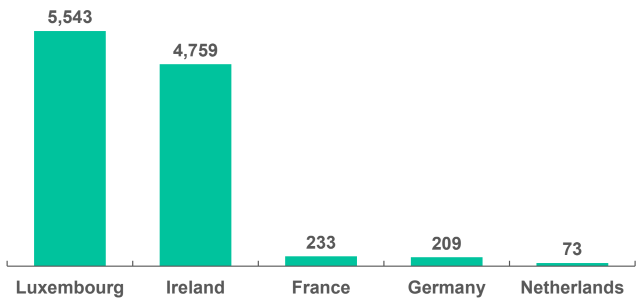


Source: EFAMA's calculation based on ECB data

Top five cross-border fund domiciles. In 2023, net cross-border fund assets domiciled in Luxembourg and Ireland totalled EUR 5.5 trillion and EUR 4.8 trillion, respectively. Together, these accounted for more than 95% of the European cross-border fund market. France, Germany and the Netherlands complete the cross-border top five, albeit with notably lower net assets.

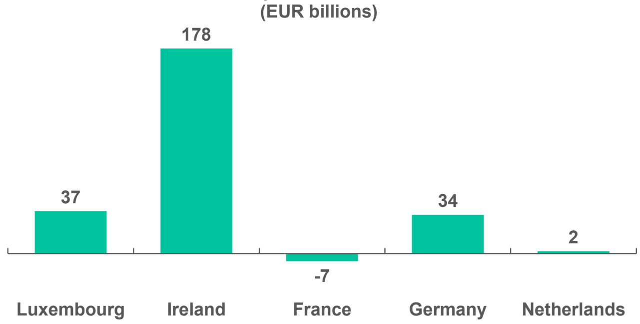
Net sales of cross-border funds. Given the size of its cross-border fund assets and their strong overall net sales that year, in 2023 Ireland captured the vast majority of the cross-border fund sales (EUR 178 billion). Luxembourg also saw net inflows into cross-border funds, totalling EUR 37 billion, while Germany followed closely (EUR 34 billion).

3.7: Net Assets of Cross-Border Funds - Top 5 Countries at End 2023
(EUR billions)



Source: EFAMA's calculation based on ECB data

3.8: Cross-Border Funds - Net Sales in 2023 - Top 5 Countries
(EUR billions)



Source: EFAMA's calculation based on ECB data

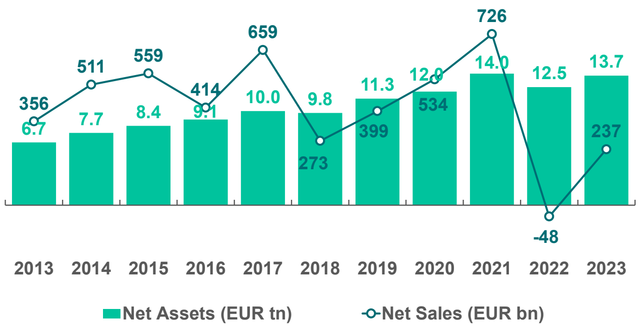
3.3 INVESTMENT FUND OWNERSHIP IN THE EU

3.3.1 Recent developments

Total fund ownership. The value of the investment funds owned by investors in EU increased steadily over the past decade, reaching nearly EUR 14 trillion at end 2021. However, this saw a decline to EUR 12.5 trillion in 2022.[xx] In 2023, UCITS and AIFs held by EU investors rebounded by around 10%, driven by the recovery in the valuations of both bonds and stocks. By end 2023, their value stood at EUR 13.7 trillion.

Net acquisitions of funds. From 2018, fund acquisitions by EU investors increased gradually to a record EUR 726 billion in 2021, before turning negative in 2022 (EUR 48 billion). In 2023, fund acquisitions returned to positive territory (EUR 237 billion).

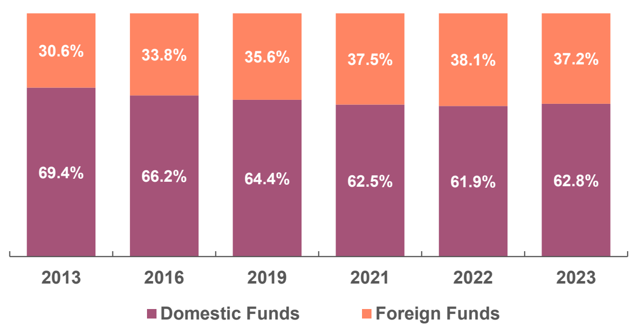
3.9: Net Assets and Net Acquisitions of Investment Funds in the EU



Source: EFAMA's calculation based on ECB data

Domestic and foreign funds. Investors can invest in either domestic funds - held in the same country where they are domiciled - or in foreign funds, which are domiciled in a country different from that of the investor. At end 2023, domestic funds accounted for 62.8% of fund ownership in the EU, compared with 69.4% in 2013. This decline can be attributed to increased purchases of cross-border funds by EU investors, as discussed in the previous section. Interestingly, in comparison to 2022, the share of domestic funds slightly increased in 2023, as net fund acquisitions of domestic funds exceeded those of foreign.

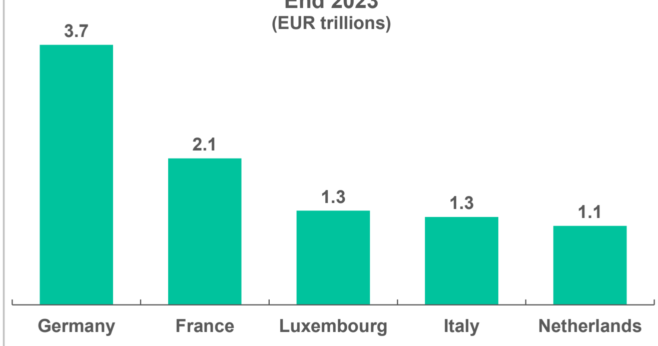
3.10: Ownership of Domestic and Foreign Funds
(Percent)



Source: EFAMA's calculation based on ECB data

Fund ownership per country – top five countries. Germany, France, Luxembourg, Italy and the Netherlands had the five highest levels of fund ownership among EU countries at end 2023. This list includes the three largest European countries both in terms of economic size and population. Luxembourg holds third place, which can be attributed to the fact that the ECB classifies investment funds as a separate investor category. This results in investment funds in which other investment funds invest being categorised as funds held locally. Given Luxembourg's substantial fund industry, these funds constitute a significant segment. The Netherlands is fifth in this ranking as a consequence of the size of its occupational pension fund sector, which holds a significant share of its portfolios in investment funds.

3.11: Top 5 Investment Funds Markets in the EU at End 2023
(EUR trillions)



Source: EFAMA's calculation based on ECB data

Fund ownership per country – All countries. The table below provides estimates of the fund assets holdings in EU countries, as well as the market share of each country within Europe. In addition, it provides a breakdown of fund holdings per country, distinguishing between domestic and foreign funds.

3.12: Ownership of Investment Funds in Europe at End 2023

Country[1]	Total Ownership of Investment Funds		Domestic Funds		Foreign Funds	
	Assets (EUR bn)	Market Share in 2023	Assets		Assets	
			EUR bn	percent	EUR bn	percent
Austria	293	1.6%	184	63%	109	37%
Belgium	511	2.8%	182	36%	329	64%
Bulgaria	5	0.03%	2	31%	4	69%
Croatia	6	0.03%	3.2	52%	3	48%
Cyprus	10	0.1%	4	36%	7	64%
Czech Republic	65	0.4%	43	67%	21	33%
Denmark	377	2.0%	302	80%	74	20%
Estonia	12	0.1%	7	57%	5	43%
Finland	338	1.8%	130	38%	208	62%
France	2,082	11.3%	1,699	82%	383	18%
Germany	3,699	20.1%	2,564	69%	1,135	31%
Greece	23	0.1%	12	54%	11	46%
Hungary	55	0.3%	46	83%	9	17%
Ireland	866	4.7%	519	60%	346	40%
Italy	1,251	6.8%	349	28%	902	72%
Latvia	7	0.04%	0.2	3%	7	97%
Lithuania	12	0.1%	2	20%	10	80%
Luxembourg	1,340	7.3%	817	61%	523	39%
Malta	14	0.1%	3	22%	11	78%
Netherlands	1,124	6.1%	691	62%	432	38%
Poland	64	0.3%	55	86%	9	14%
Portugal	72	0.4%	32	44%	40	56%
Romania	8	0.04%	7	80%	2	20%
Slovakia	27	0.1%	9	34%	18	66%
Slovenia	9	0.05%	5	57%	4	43%
Spain	700	3.8%	383	55%	317	45%
Sweden	772	4.2%	580	75%	192	25%
EU	**13,742**	**74.6%**	**8,631**	**63%**	**5,110**	**37%**
Norway	208	1.1%	154	74%	55	26%
Switzerland	1,918	10.4%	1,507	79%	411	21%
Turkey[2]	42	0.2%	42	100%	0	0%
United Kingdom	2,519	13.7%	1,864	74%	654	26%
Europe	**18,429**	**100.0%**	**12,198**	**66%**	**6,230**	**34%**

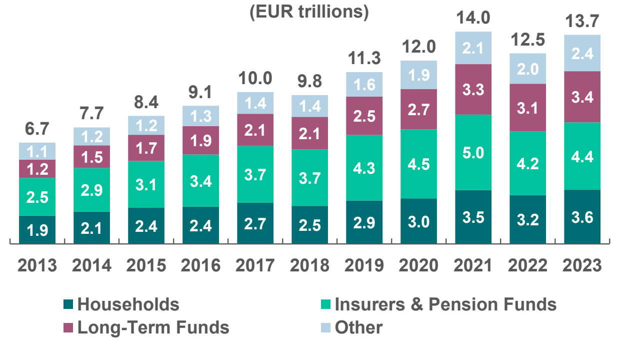
(1) Data sourced from the ECB, the OECD and the SNB.
(2) Data as at end of Q3 2023.

3.3.2 Fund ownership per type of investor in the EU

Different types of investors. Fund ownership can be broken down by the main type of investor. Insurance and pension funds, households and long-term funds are the three main types. Together, these hold around 84% of total investment fund assets in the European Union at end 2023. The 'other investors' category encompasses all other types of investors that do not make significant use of investment funds.

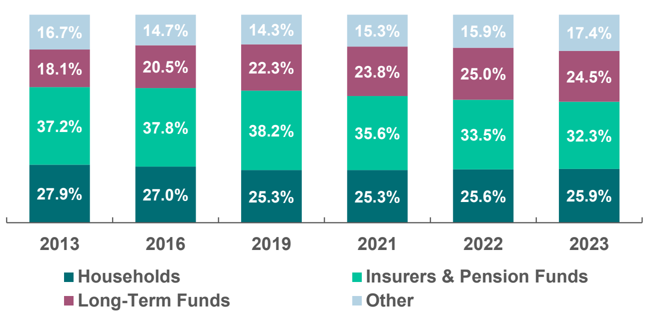
Other investors. This category combines all those types of investors that do not make extensive use of investment funds. It includes monetary financial institutions[xxi] such as banks, non-financial corporations, general governments and remaining other financial intermediaries (OFIs).[xxii] Their market share has steadily edged up over recent years, from 14.3% in 2019 to 17.4% at end 2023.

3.13: Investment Fund Ownership in the EU by Sector
(EUR trillions)



Source: EFAMA's calculation based on ECB data

3.14: Investment Fund Ownership in the EU by Sector
(Percent)



Source: EFAMA's calculation based on ECB data

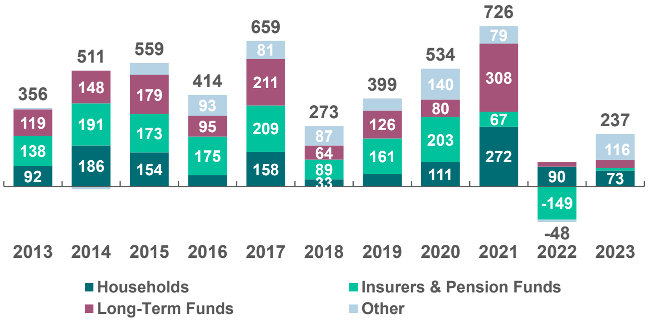
Insurers and pension funds. Insurers and pension funds are the largest investors in investment funds, holding slightly less than one-third of the total funds in the European Union. However, despite solid growth in absolute terms, the share of investment funds owned by insurers and pension funds has gradually decreased in recent years.

Households. Households are the second-largest investor type. Their market share dipped from around 28% in 2013 to 25.3% in 2019, growing again in 2020-2023 to reach 26% at end 2023, thanks to relatively strong net fund acquisitions.

Long-term funds. The share of other long-term funds grew briskly from 18.1% in 2013 to 24.5% at end 2023. This was fuelled by these funds allocating a larger portion of their assets into other investment funds. Long-term funds are increasingly reliant on ETFs and index funds to adjust their geographical or sector exposure in a cost-effective way.

Net fund acquisitions. After experiencing negative net acquisitions in 2022 (mainly driven by Dutch pension funds; see section 3.4.3), net fund acquisitions returned to positive territory in 2023 (EUR 237 billion). This rebound was supported by solid purchases from other investors (EUR 116 billion), primarily non-financial corporations in France investing in MMFs and OFIs in Luxembourg. Households have consistently invested in funds in recent years, with net inflows amounting to EUR 73 billion in 2023, compared to EUR 90 billion in 2022 and a record-breaking EUR 272 billion in 2021.

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



Source: EFAMA's calculation based on ECB data

Fund ownership by country. The following table depicts fund ownership by country at end 2023, broken down by type of investor. It offers insights into the structural composition of the investment fund market across European countries. Three broad categories of European countries can be distinguished.

1. **Retail-dominated**: In these countries, households represent the majority of fund ownership, with institutional investors in a smaller role. The countries where more than 40% of fund assets are held by households are Belgium, Croatia, the Czech Republic, Estonia, Greece, Hungary, Italy, Poland, Portugal, Romania, Slovenia, Spain and Turkey.
2. **Institutional-driven**: Fund ownership in these countries is primarily driven by the domestic insurance and/or pension fund sectors. These nations often have substantial second-pillar pension systems, such as the Netherlands, Sweden and the UK. Some, like France or Germany, possess highly developed domestic insurance industries. Outside the countries mentioned above, the share of fund assets held by insurers and pension funds is also higher than 40% in Bulgaria, Croatia, Latvia, Lithuania, Slovakia, Norway and Switzerland.
3. **Long-term fund domicile:** Here, long-term funds dominate domestic fund ownership. All are cross-border fund hubs with relatively small populations, including Luxembourg, Ireland and Malta.

3.16: Investment Fund Ownership by Sector at End 2023
(EUR billions)

Country(1)	Households	Insurers & Pension Funds		Long-Term Funds	Other				Total
		Insurers	Pension Funds		Non-Financial Corporations	MFIs	General Government	OFIs (excluding funds)	
Austria	93	35	25	68	17	16	13	26	293
Belgium	270	73	36	97	28	1	3	2	511
Bulgaria	1	1	2	1	0.3	0.1	0.1	0.1	5
Croatia	3	1	2	0.2	0.1	0.1	0.4	0.01	6
Cyprus	2	2	2	1	2	0.1		2	10
Czech Republic	46	4	1	8	3	1	0.1	1	65
Denmark	94	73	59	54	22	19	6	50	377
Estonia	6	0.3		3	1	1	0.2	0.2	12
Finland	55	52	2	46	15	2	162	4	338
France	346	895		365	185	91	161	40	2,082
Germany	1,068	822	401	665	237	200	92	214	3,699
Greece	13	5	1	1	1	1	1	0.1	23
Hungary	26	4	2	11	7	4	1	1	55
Ireland	5	154	13	439	23	2	5	225	866
Italy	703	322	23	40	42	36	47	38	1,251
Latvia	0.5	1	6	0.02	0.1	0.4	0.1	0.1	7
Lithuania	1	1	6	0.4	1	2	0.03	0.3	12
Luxembourg	15	113	1	1,116	5	5	2	84	1,340
Malta	2	2	2	7	0.2	1	0.1	1	14
Netherlands	108	123	577	255	8	6	1	46	1,124
Poland	34	11	0.4	4	7	3		4	64
Portugal	30	10	7	7	6	4	8	1	72
Romania	4	1	1	1	1	0.2	0.1	0.2	8
Slovakia	11	2	9	4	0.3	1	0.0001	0.02	27
Slovenia	4	2	1	0.3	0.4	0.4	0.4	0.1	9
Spain	439	33	43	93	80	2	3	7	700
Sweden	173	114	359	77	21	1	24	3	772
EU	**3,553**	**2,853**	**1,581**	**3,365**	**712**	**398**	**530**	**749**	**13,742**
Norway	44	107		19	17	4	2	14	208
Switzerland	416	1,066		338	41	2	13	42	1,918
Turkey(2)	26	2			13	2			42
United Kingdom	332	1,871		299	2	5		10	2,519
Europe	**4,371**	**7,480**		**4,022**	**784**	**410**	**546**	**815**	**18,429**

(1) Data sourced from the ECB, the OECD and the SNB.
(2) Data as at end of Q3 2023.

Net fund acquisitions by country. The table below shows the net fund acquisitions in 2023 by type of investor. Country-specific fund acquisitions are usually in line with the structure of fund ownership presented in the previous table. This means that the largest fund acquisitions per type of investor are usually in those countries where that specific type of investor accounts for a significant part of total fund ownership. In the retail market, German households were the largest purchasers of funds (EUR 38 billion), followed by Spain (EUR 25), Sweden (EUR 9 billion) and France (EUR 8 billion). Fund purchases by insurers were positive in 2023 (EUR 27 billion), with Italy (EUR 19 billion), France (EUR 19 billion) and Germany (EUR 12 billion) accounting for the bulk of net acquisitions. The EU pension fund sector disinvested from funds in 2023, mainly due to net outflows in Germany (EUR 17 billion), the Netherlands (EUR 8.6 billion) and Denmark (EUR 3 billion). Luxembourg accounted for the vast majority of fund acquisitions by long-term funds (EUR 64 billion). Among other investors, the sizeable fund acquisitions by non-financial corporations stood out (EUR 46 billion), driven by French companies (EUR 25 billion). OFIs also made substantial fund investments (EUR 43 billion).

3.17: Net Acquisition of Investment Funds by Sector in 2023
(EUR millions)

Country[1]	Households	Insurers & Pension Funds		Long-Term Funds	Other				Total
		Insurers	Pension Funds		Non-Financial Corporations	MFIs	General Government	OFIs (excluding funds)	
Austria	2,171	-128	405	-984	-1,246	1,922	-98	661	2,703
Belgium	2,643	1,974	1,842	1,721	2,114	-210	-277	307	10,114
Bulgaria	96	157	15	42	67	12	55	23	466
Croatia	449	-109	196	-5	-63	87	11	-25	541
Cyprus	630	-2	59		556	8		-1,531	-279
Czech Republic	5,411	-57	307	729	560	62	9	760	7,781
Denmark	-112	-22,627	-2,834	-1,197	-583	3,299	-409	1,389	-23,075
Estonia	718	-37		389	39	190	12	10	1,320
Finland	3,260	2,075	107	3,042	4,992	-261	3,975	510	17,700
France	7,888	18,852		-5,274	24,899	3,684	4,203	6,978	61,230
Germany	37,885	11,729	-17,030	5,139	5,520	-4,932	1,158	4,374	43,843
Greece	2,657	804	83	-170	110	211	58	28	3,781
Hungary	5,638	197	134	2,837	1,388	744	52	104	11,093
Ireland[2]	-307	-17,954	-1,995	-18,064	1,766	-225	-277	-473	-37,529
Italy	-36,886	19,394	637	-4,565	-74	3,290	3,117	-3,852	-18,939
Latvia	-14	16	712	-10	-18	-2	2	-15	671
Lithuania	42	212	503	35	142	515	-27	75	1,497
Luxembourg	638	732	117	64,272	-14	1,326	99	27,309	94,479
Malta	-31	-69	-178	-297	-303	3	16	47	-812
Netherlands	-114	7,129	-8,578	5,559	2,099	-288	729	5,468	12,004
Poland	4,464	-106	121	466	77	1,784		439	7,245
Portugal	572	-82	-1,368	-303	519	-632	1,435	73	214
Romania	-207	71	-729	28	-3	19	-1	41	-783
Slovakia	934	287	1,512	-476	45	238		-96	2,443
Slovenia	329	84	2	-49	58	39	-0.3	7	469
Spain	24,504	-1,009	-894	-11,170	2,145	1,055	-144	682	15,169
Sweden	9,390	5,865	10,976	-4,421	1,115	39	783	-29	23,717
EU	**72,649**	**27,399**	**-15,877**	**37,272**	**45,905**	**11,976**	**14,480**	**43,262**	**237,065**
Norway	2,586	4,015		1,794	1,722	90	85	406	10,698
Switzerland	14,657	25,502		12,502	-4,569	-49	782	-6,025	42,800
Turkey[3]	8,406	1,368		13,414	3,177	2,402			28,769
United Kingdom	-9,821	15,395		15,306	6	16		-9,665	11,237
Europe	**88,477**	**57,802**		**80,288**	**46,241**	**14,434**	**15,347**	**27,978**	**330,568**

(1) Data sourced from the ECB, the OECD and the SNB.

(2) Data for insurance and pension funds is estimated.

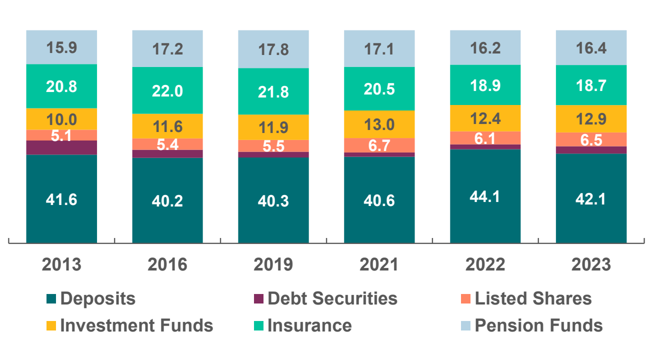
(3) Data as at end of Q3 2023.

3.4 LOOK-THROUGH THE FINANCIAL PORTFOLIO HOLDINGS OF EU INVESTORS

3.4.1 Households

Financial assets. Looking at the financial assets of EU households[xxiii], the average share of deposits increased from 40.6% in 2021 to 44.1% in 2022, due to the steep decline in bond and stock valuations over that year. In 2023, the share of deposits declined to 42.1% as financial markets recovered. The share of investment funds owned by households has gradually increased over the past decade, from 10% in 2013 to almost 13% in 2021, due mainly to a combination of fund acquisitions and market appreciation.

3.18: Direct Financial Holdings of EU Households
(Percent)



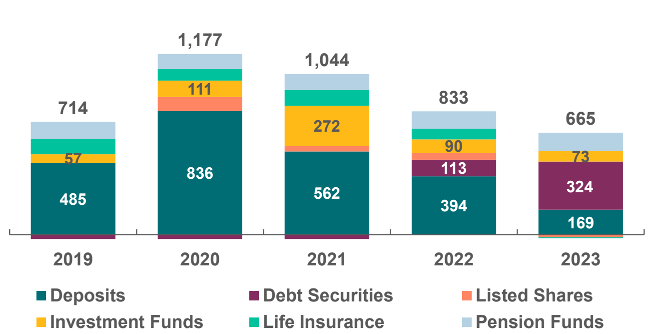
Source: EFAMA's calculation based on ECB data

Net acquisitions of deposits. Since 2020, when EU households saved a record EUR 836 billion in deposits – due to lockdown measures that restricted spending - the net increase in deposits decreased each year. In 2023, net money flowing into deposits amounted to EUR 169 billion, making up only 25% of total financial asset acquisitions by households, the lowest percentage of the past five years.

Net acquisitions of capital market instruments. Up until 2021, EU households were steadily moving away from owning debt securities directly, a result of low interest rates and the relatively limited offerings available to retail investors. However, this trend reversed in 2022, as the abrupt rise in interest rates made bonds attractive once again, resulting in EUR 113 billion in net acquisitions. In 2023, net acquisitions of debt securities by EU households soared to EUR 324 billion. This surge was driven by government bond issuances targeted at domestic retail investors in Italy (EUR 155 billion), Germany (EUR 69 billion), Belgium (EUR 33 billion) and Spain (EUR 23 billion). As banks were reluctant to increase interest rates on deposits and savings accounts, governments in these countries successfully attracted retail savers with higher yields and, in some cases, tax advantages.

Net acquisitions of investment funds. Following the market dip in March 2020, a swift recovery restored investor confidence, resulting in solid net inflows into investment funds that year (EUR 111 billion). This momentum continued, with record fund acquisitions in 2021 (EUR 272 billion). In 2022, despite overall decreases in financial markets (EUR 90 billion), EU retail investors continued to buy investment funds. While net fund acquisitions remained positive, they decreased to EUR 73 billion in 2023, as funds faced direct competition from government bond issuances in certain European countries, such as Italy and Belgium.

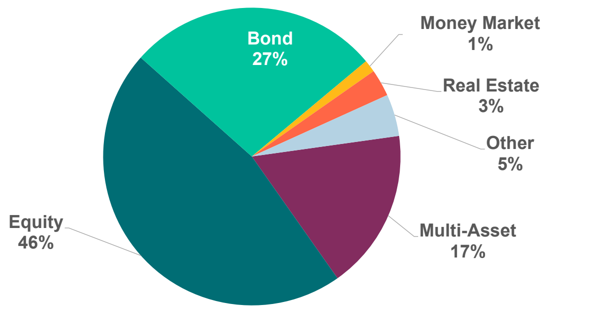
3.19: Net Asset Acquisitions by EU Households
(EUR billions)



Source: EFAMA's calculation based on ECB data

Types of funds held by households. Using a combination of ECB and Morningstar data[xxiv], we can estimate which types of funds are preferred by European households. Equity funds represent the largest share (46%) of fund holdings, followed by bond funds (27%) and multi-asset funds (17%). The remaining types of funds accounted for significantly smaller shares of household fund holdings, with other funds making up 5%, real estate funds 3% and MMFs only 1%.

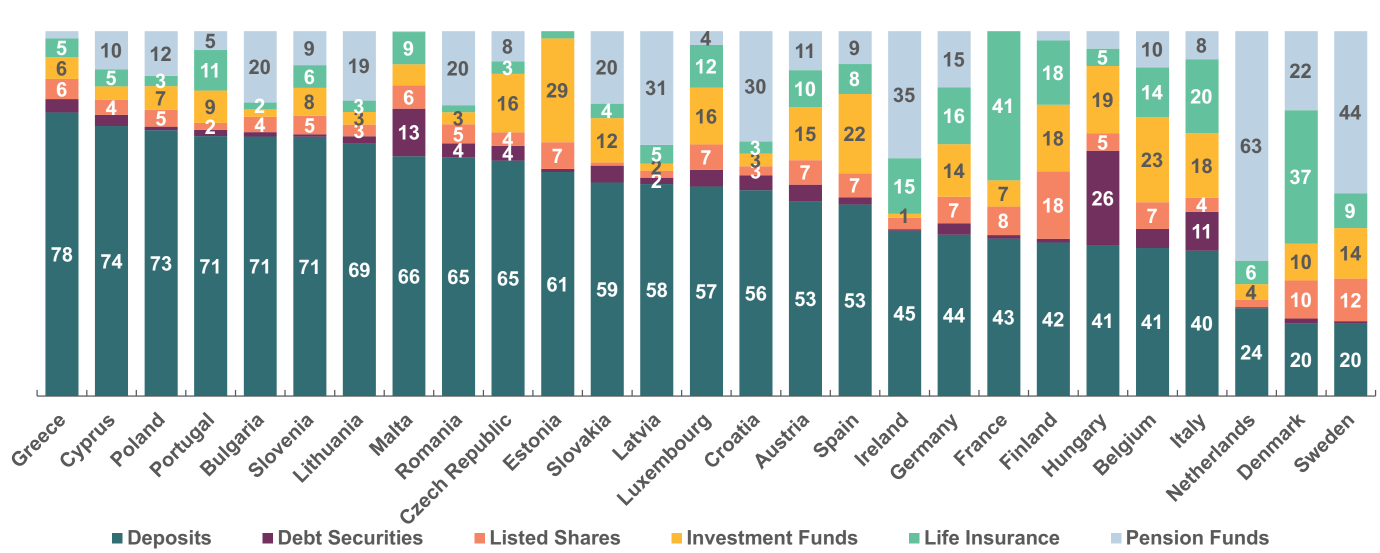
3.20: Estimated Investment Funds Held by Households in Europe at End 2023
(Percentage of total funds held)



Source: EFAMA's calculation based on ECB and Morningstar data

Country-level data. Significant differences in financial asset allocation between European countries can be observed. In general, households in countries with lower income levels tend to save a higher proportion of their financial assets in deposits. The countries with the lowest share of deposits are those with well-developed private pension markets, such as the Netherlands, Denmark and Sweden. Households in those countries tend to hold high shares of pension funds (Netherlands and Ireland) or life insurance products (Denmark and France). Investment funds are the most common way to invest in capital markets for households in many European countries. Direct fund holdings are particularly popular in Estonia (29%), Belgium (23%), Spain (22%) and Italy (18%). Only in Finland, Sweden and Denmark do households invest more than 10% of their financial assets directly in the stock market. In Hungary, the promotion of special government securities - only available to households and offering above-market interest rates - resulted in a 26% share of savings in debt securities.

3.21: Financial Holdings of Households - Asset Allocation at End 2023
(Percent)



Source: EFAMA's calculation based on ECB data

Box 7
The Retail Investment Strategy: a year on

Author: **Kimon Argyropoulos**

Retail investors in the European Union often struggle to navigate the complex world of capital markets. Despite the EU's high savings rates, the region has historically lagged others in terms of retail investment. This highlights the need to address the barriers that are inhibiting retail investors from participating in the capital markets. The Commission's Retail Investment Strategy (RIS) aims to bridge this gap by cultivating a more vibrant retail investment landscape within the EU. This aims both to provide retail investors with better retirement outcomes and to bridge the EUR 500 billion annual investment gap for funding the net zero and digital transitions.

Cost: beyond a price tag

Judging by the Commission's package of proposals - which among other measures include the execution-only ban on inducements as well as the introduction of pan-European cost benchmarks, it is safe to say the perception is that cost is the only barrier to investment. While cost will always be an important consideration, it is merely the tip of the iceberg, overshadowing deeper complexities that demand nuanced solutions.

Cost undoubtedly looms large in the minds of retail investors, and rightly so. However, it is vital to recognise that cost is not the sole determinant of value. In a market driven by competition and choice, the pursuit of value should not be undermined by the quest for affordability. Introducing cost and performance benchmarks, while well intentioned, risks constraining investor choice and stifling European competition. Such measures - while ostensibly aimed at protecting investors - paradoxically undermine the very essence of the single market; a dynamic ecosystem where innovation thrives and investors have a wide selection of choice. Retail investors deserve access to a diverse array of investment options, tailored to their individual preferences and risk profiles; they should not be shackled by 'one-size-fits-all' metrics. EFAMA's recent report looking into the core factors impacting cost incurred by retail investors found that cost cannot be the sole consideration when looking to invest. Indeed, it also demonstrated that the cost of UCITS has continued to decline in recent years, owing to a range of factors including passive investing, increased cost pressures and technology driving down operational costs.[1]

Access to financial advice: a guiding light in the digital age

Beyond cost considerations, access to financial advice is crucial in helping retail investors navigate the complex investment landscape. The importance of access to a range of distribution channels, encompassing both advised and non-advised models, cannot be overstated. A recent EFAMA survey, undertaken to better understand the distribution channels used by retail investors, found that the advice channel – the distribution of funds by intermediaries and financial professionals who provide investment guidance – is the most significant distribution channel in Europe. It accounts for 80% of fund assets used by retail investors.[2] Still, in an era where digital disruption is reshaping traditional models, the future of distribution is poised to undergo a seismic shift towards digitalisation. The proposal to ban inducements for execution-only transactions undermines this trend, ignoring the new reality where retail investors navigate their financial journeys with digital tools and platforms. While digital convenience has clear appeal, it is imperative to strike a balance, ensuring that technological advancements enhance, rather than replace, the human aspect of financial advice. Retail investors need guidance, support and expertise to navigate the complexities of capital markets; digitalisation should serve as an enabler, not an impediment, to fulfilling this need.

Cultural shift: a holistic approach

Achieving meaningful change in consumer habits will require a shift in culture. While the RIS may play its role, it will not achieve this alone; Member States must also act. Successful pension systems and tax incentives are key areas that are not covered by the RIS. A vibrant pension market can act as a catalyst for encouraging households to venture into capital markets, laying the groundwork for a robust Capital Markets Union. This is increasingly important given the demographic shift toward an ageing population and longer retirement periods, along with the need for increased financing this generates. A key lever here is auto-enrolment schemes, which automatically enrol individuals in retirement saving schemes unless they actively opt out. Equally, savings accounts or products that allow individuals to save without incurring income or capital gains tax on returns and withdrawals can also play a significant role in increasing retail participation. However, these initiatives must be complemented by robust financial literacy programmes capable of empowering individuals to make informed decisions for their financial future. Equipping retail investors with the knowledge and skills needed to navigate the complexities of investment and retirement planning can help cultivate a culture of financial independence and resilience.

Conclusion: the way forward

A year on from the publication of the RIS, and with the competitiveness debate front and centre in EU politics, we still have a long way to go. The RIS is no silver bullet; success in increasing retail participation will require cultural change. This relies on everyone - industry, the EU and Member States - doing their part. Only through the successful interaction of measures at all levels will we truly be able to empower retail investors and shape a stronger financial future for Europe as a whole.

1 Size, age, investment strategy and geography are key determinants of UCITS cost | EFAMA

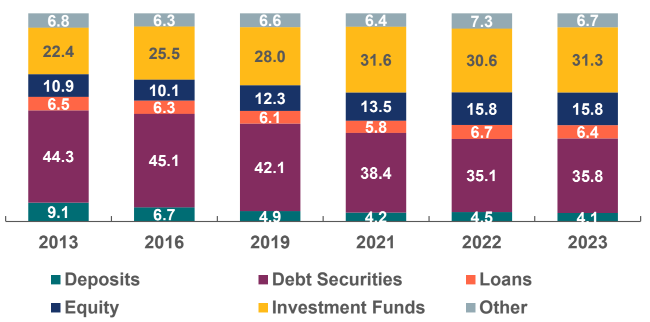
2 Advice-based distribution channels dominate European fund landscape | EFAMA

3.4.2 Insurers

Overview. Insurers are the principal institutional investors in the EU, gathering substantial sums from issuing insurance policies that need to be invested in the financial markets. Traditionally, insurers favour debt securities for investing the bulk of their financial assets, due to the fixed and predictable income stream these assets provide, which helps align their liability and assets.

Financial assets. Looking at the asset allocation of insurers, the share of directly held debt securities dropped from 44.3% in 2013 to 35.1% in 2022, influenced by the low-interest rate environment. However, in 2023, this share rose again, to 35.8%, as bond valuations increased. Over the past ten years, investment funds have become increasingly important in the asset allocation of insurance companies, increasing from 22.4% in 2013 to 31.3% in 2023. Investment funds provide insurers with an efficient means to expand their sectoral or geographical exposure and diversify risk. Costs also play a role; the average cost of investment funds, particularly in the institutional segment, has dropped significantly in recent years, due to the widespread availability of products such as ETFs and index funds.

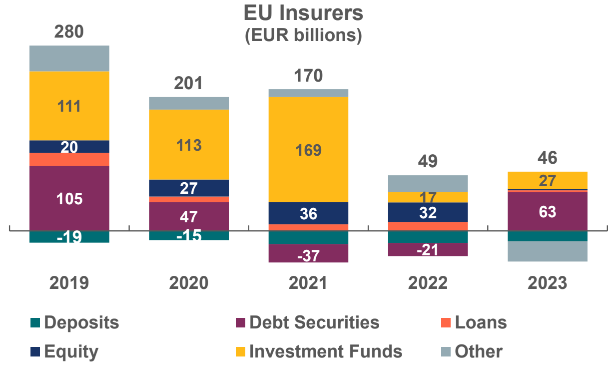
3.22: Financial Asset Ownership by EU Insurers
(Percent)



Source: EFAMA's calculation based on ECB data

Net acquisitions of financial assets. The growing importance of investment fund share in the asset allocation of insurers is even more apparent when looking at their financial asset acquisitions in recent years. In 2020 and 2021, funds accounted for more than half the total acquisition of financial assets over that year. However, in 2022, net fund acquisitions dropped significantly, as insurers were deterred by rising interest rates and volatile stock markets. In 2023, fund acquisitions recovered slightly, but purchases remained relatively low. Conversely, direct purchases of debt securities rebounded in 2023, turning positive following two years of disinvestment, as recent interest rate increases made these financial assets attractive once again.

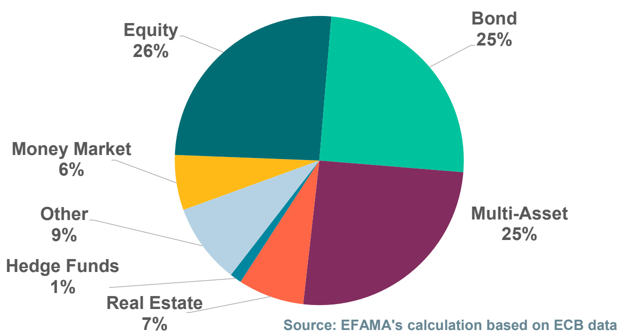
3.23: Acquisitions of Financial Assets by EU Insurers
(EUR billions)



Source: EFAMA's calculation based on ECB data

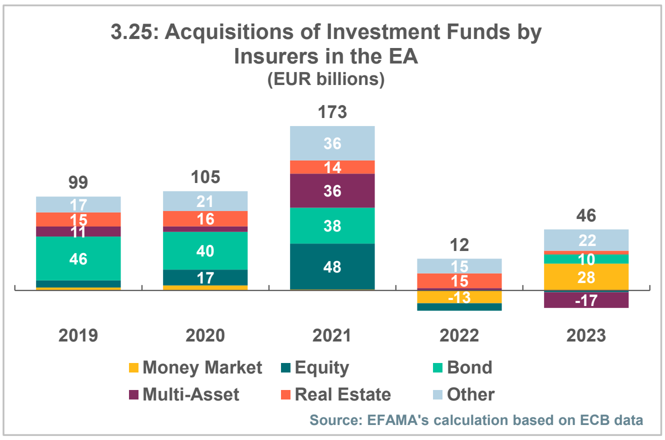
Types of funds held by insurers. ECB data allows us to look in depth at the type of funds that EA insurers held at end 2023. Equity, bond and multi-asset funds each accounted for around one-quarter of the total fund holdings of insurers. These percentages indicate that insurers are making extensive use of investment funds for investing in equity markets. Other funds, real estate funds and MMFs accounted for, 9%, 7% and 6%, respectively.

3.24: Investment Funds Held by Insurers in the EA at End 2023
(Percentage of total funds held)



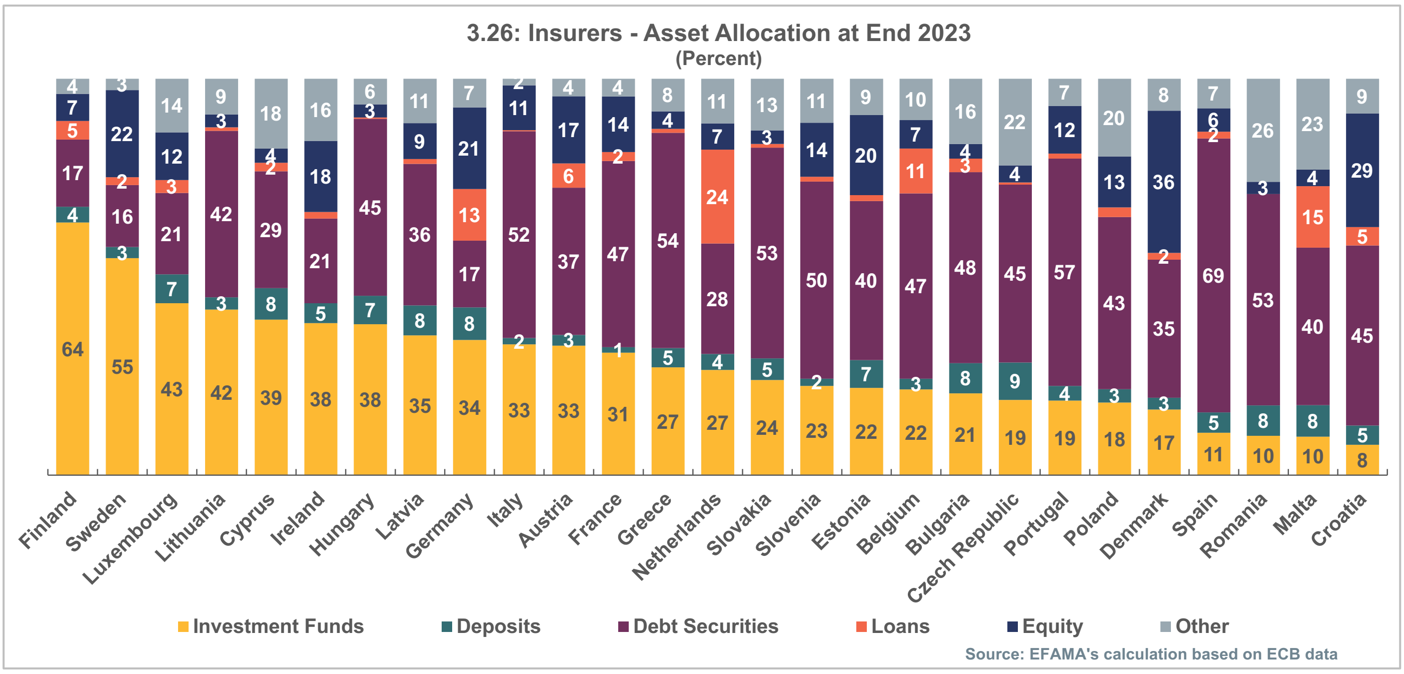
Source: EFAMA's calculation based on ECB data

Net acquisitions of funds by type. The chart below shows the types of funds EA investors bought and sold over the past five years. In 2019 and 2020, EA insurers bought mainly bond funds. In 2021, amid booming stock markets, there were also significant purchases of equity and multi-asset funds. 2022, with its steep declines in stock and bond valuations, saw net purchases of equity and bond funds drop to close to zero. In 2023, insurers mainly bought MMFs, as the inverted yield curve made these funds attractive. Insurers also disinvested from multi-asset funds, reflecting these funds' inability to shield investors from the simultaneous decline in typically uncorrelated asset classes in 2022 (see previous chapter, Section 2.3.5). Insurers steadily invested in real estate funds during 2019-2022, but these purchases dwindled in 2023, as real estate prices dipped down.



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

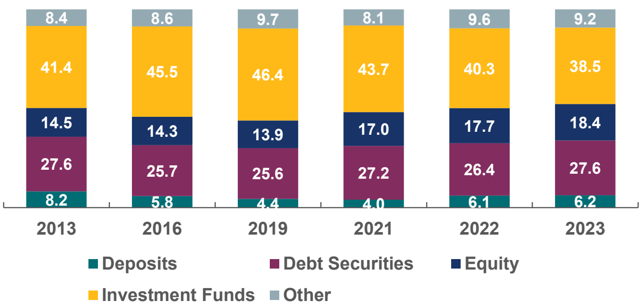
Country-level data. Throughout European countries, insurers allocate the largest share of their financial portfolio to debt securities. Notably, in Southern and Eastern European countries, insurers maintain substantial levels of debt securities. In addition, there is often a certain home bias in their debt holdings, as they mainly hold domestic bonds. Conversely, insurers in Northern and Western European countries - particularly smaller ones - tend to allocate larger proportions of their portfolio to investment funds.



3.4.3 Pension funds

Financial assets. Investment funds are the dominant asset type held by pension funds. Their share rose from 41.4% in 2013 to 46.4% in 2019, before gradually declining to 38.5% at end 2023. The share of directly held debt securities has not changed significantly since 2013, whereas the share of directly held equity fluctuated in line with stock market valuations, rising to a record 18.4% in 2023. The enduring prevalence of investment funds in pension fund portfolios is due to the fact that these provide an easy way to diversify geographic, sectoral exposure and diversify risk. Moreover, the decline in costs has further enhanced their attractiveness as an investment option.

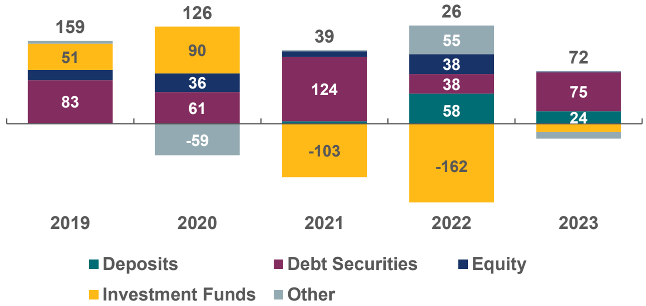
3.27: Financial Asset Ownership by EU Pension Funds
(Percent)



Source: EFAMA's calculation based on ECB data

Net acquisitions of financial assets. Pension funds were purchasing investment funds in 2019 and 2020, but this changed in 2021 and 2022, with substantial disinvestments. This was mostly due to several large Dutch pension funds switching their portfolios from AIFs to segregated accounts. The scale of the Dutch pension fund sector, which accounts for around 45% of the EU total, explains why this switch had a significant impact on the overall net acquisitions of investment funds in 2021 and 2022. In 2023, these disinvestments decelerated, as the switchover to mandates slowed down. Deposit acquisitions shot up in 2022, as pension funds were forced to increase cash holdings to meet margin requirements under derivatives contracts, which had risen rapidly due to increasing interest rates. Net deposit acquisitions were lower in 2023 but remained positive as high money-market rates and a reverse yield curve made investing in cash an interesting option for pension fund managers. Net acquisitions of debt securities have remained consistently positive over the past five years, contrary to net acquisitions of listed stocks.

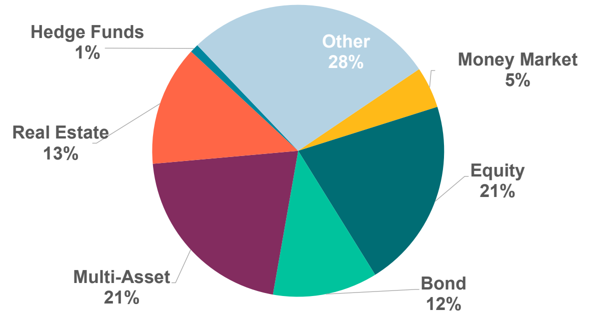
3.28: Acquisition of Financial Assets by EU Pension Funds
(EUR billions)



Source: EFAMA's calculation based on ECB data

Types of funds held by pension funds. In contrast to insurers, pension funds held a smaller share of equity funds (21% of their fund portfolio at end 2023). In addition, their allocation to multi-asset funds and particularly bond funds were lower. At the same time, pension funds allocated a higher share of their portfolio to 'other' funds (28%), primarily investing in alternative assets like private equity, private debt or infrastructure as well as real estate funds (13%). Both 'other' funds and real estate funds share the common characteristic of investing in less-liquid assets, which tend to have a higher or guaranteed yield. Pension funds, with their extremely long-term investment horizon and unencumbered by Solvency II rules, are the ideal clients for these types of funds.

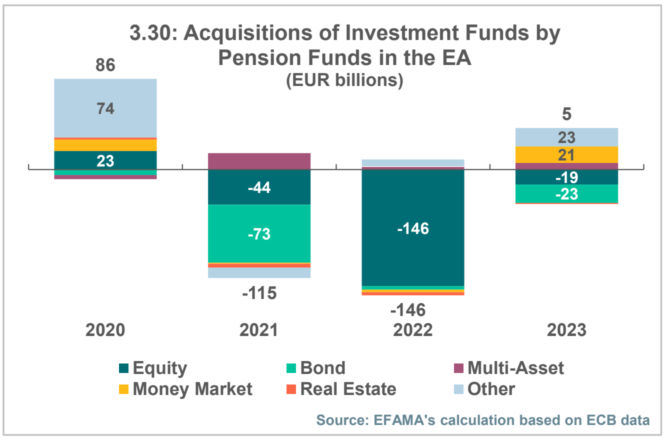
3.29: Investment Funds Held by Pension Funds in the EA at End 2023
(Percentage of total funds held)



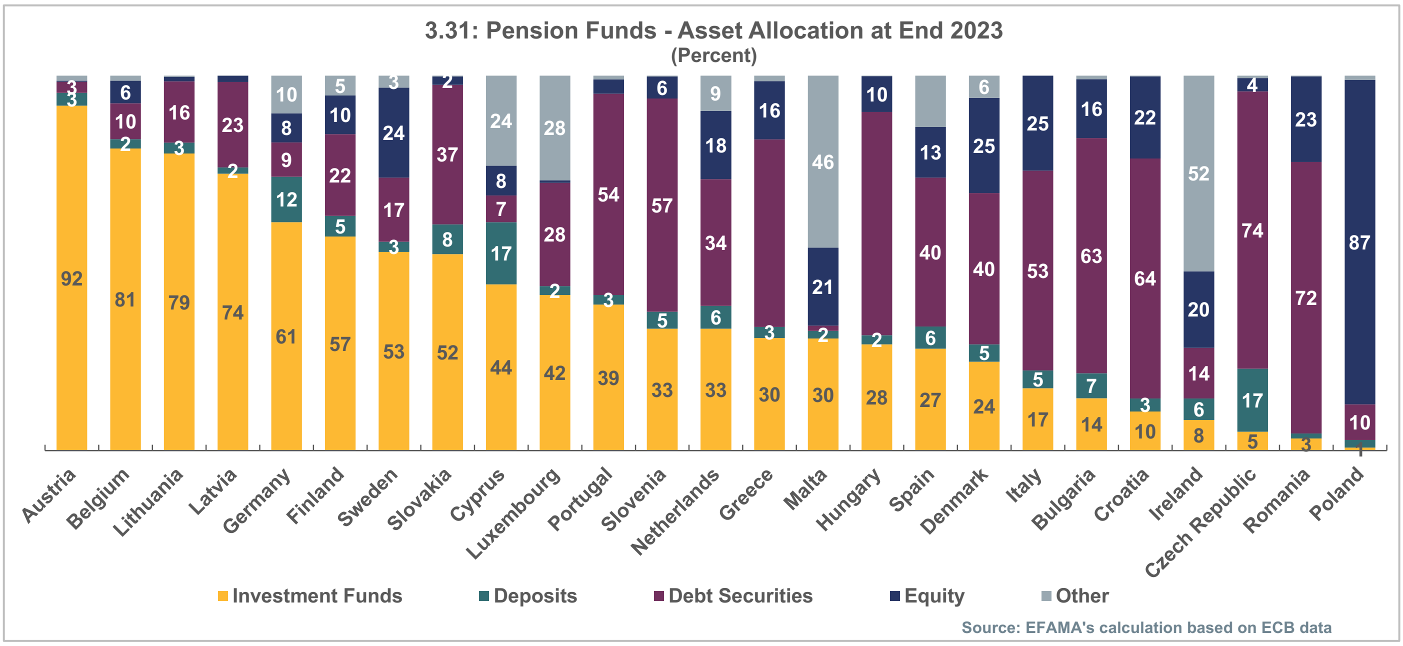
Source: EFAMA's calculation based on ECB data

Net acquisitions of funds by type. Exceptionally large net outflows from bond and equity funds occurred in 2021-2022, due to developments in the Dutch and Danish pension fund markets discussed earlier. In 2023, net fund acquisitions in the EA returned to positive territory. Pension funds mainly bought MMFs during that year, driven by the inverted yield curve, but also other funds.

On the other hand, they disinvested from equity and bond funds.



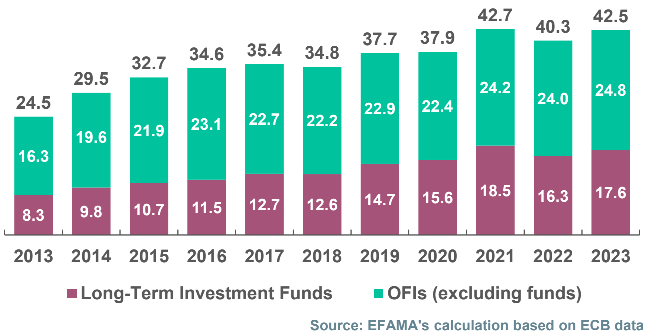
Country-level data. As with insurers, pension funds in Southern and Eastern Europe allocate a significant proportion of their assets directly to domestic government debt. Poland is an exception, with legal restrictions preventing pension funds from investing directly in government bonds. Western and Northern European pension funds, along with those in the Baltics, make greater use of investment funds, thus leveraging the diversification benefits these products offer.



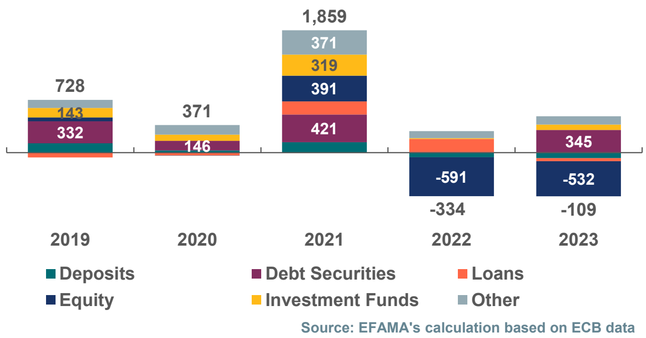
3.4.4 Long term funds and other financial intermediaries

What are 'other financial intermediaries'? Other financial intermediaries (OFIs) are a diverse group of financial entities that do not fit neatly into one of the other categories. This group encompasses a wide range of financial actors, including holding companies, central counterparties (CCPs), security and derivatives dealers as well as sovereign wealth funds. Long-term investment funds are the predominant type of investor within this diverse group of financial intermediaries. The financial assets of long-term investment funds amounted to EUR 17.6 trillion at end 2023, whereas those of the remaining financial intermediaries amounted to EUR 24.8 trillion.

3.32: Financial Asset Ownership by EU Other Financial Intermediaries
(EUR trillions)

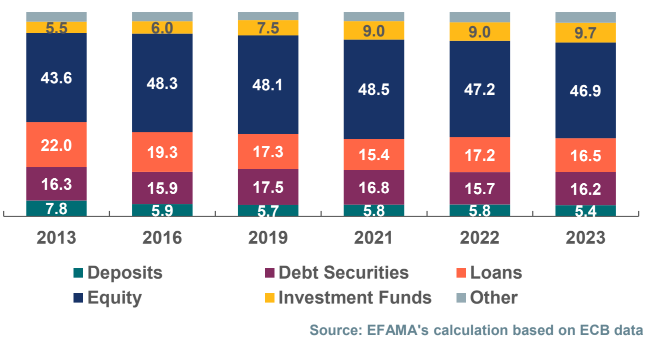


3.34: Acquisitions of Financial Assets by EU Other Financial Intermediaries
(EUR billions)



Financial assets. Among the main categories of investors in investment funds, OFIs allocate the smallest proportion of their financial assets to investment funds. However, this percentage nearly doubled in 2023, from 5.5% in 2013 to 9.7%. Long-term funds primarily drove this trend, as these increasingly invest in other funds, whereas the remaining OFIs did so significantly less. The most likely explanation for the upswing in the fund share is the fact that active investment funds are increasingly making use of ETFs and index funds in their portfolio allocation. Equities accounted for 46.9% of the total asset allocation of OFIs at end 2023. However, a significant portion of this allocation comprises of unlisted equity. These equity assets often reside within holding companies or special purpose entities of multinational companies, established primarily for tax optimization purposes. Entities like these typically hold large equity stakes, encompassing all subsidiary corporations under their control.

3.33: Financial Asset Ownership by EU Other Financial Intermediaries
(Percent)



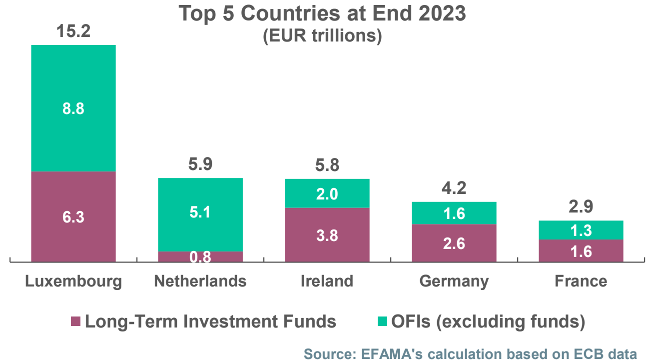
Net acquisitions of financial assets. In comparison to their total net acquisitions of financial assets, the investment fund acquisitions by OFIs typically constitute a relatively small proportion. The exception was 2021, with fund net acquisitions amounting to EUR 319 billion. In 2023, OFIs invested EUR 81 billion of net new money in investment funds. Overall, OFIs registered negative net acquisitions in 2023, similar to 2022, due to large disinvestments from equity holdings.

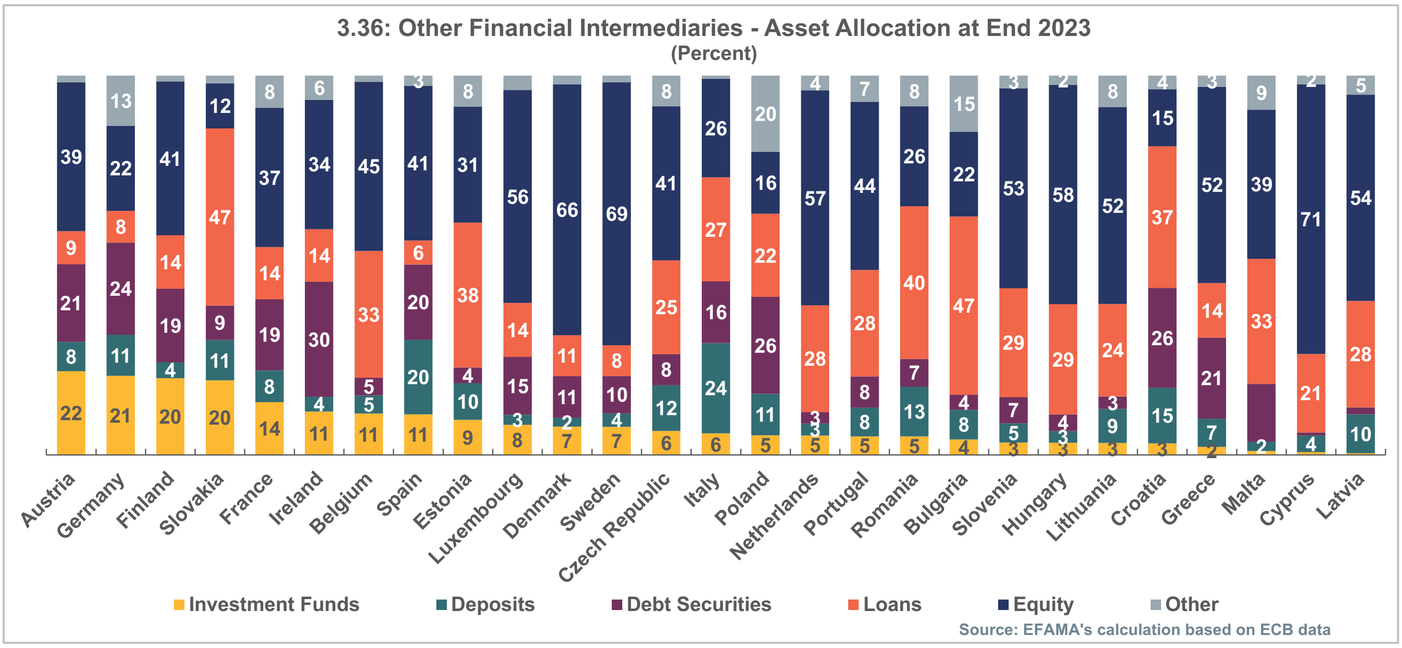
Country-level data. The asset allocation of OFIs varies significantly between EU countries, largely influenced by the predominant type of OFI present in each (see chart 3.36). Of greater significance for the EU aggregate, however, are the sizes of OFI financial assets in each country.

OFIs - Long-term funds. Looking at the long-term fund portion of OFIs, the countries in the EU with the highest amounts of financial assets are the main domiciles of UCITS and AIFs. Luxembourg and Ireland account for the bulk of financial assets, as both are the main cross-border fund domiciles in Europe. The other sizeable fund domiciles, Germany and France, also accounted for a significant share of the European total.

Remaining OFIs (excluding long-term funds). Among all other OFIs (excluding long-term funds), the bulk of financial assets in the EU can be found in Luxembourg, the Netherlands and - to a lesser extent - Ireland. These three countries play host to a substantial presence of holding companies, special purpose entities and/or headquarters of multinational companies, all established within their borders.

3.35: Financial Asset Ownership by Other Financial Intermediaries - Top 5 Countries at End 2023
(EUR trillions)





Box 8
T+1 settlement cycle: The train rumbles on

Author: **Susan Yavari**

For a regulatory change that was meant to deliver widespread benefits for capital market participants, the US move to a T+1 settlement cycle has created a remarkable number of challenges and costs for the European buy-side. This has much to do with the fact that the US transition was treated as a domestic event, with a US-centric timetable, whereas the ramifications of US T1 are being felt well beyond US borders.

Industry observers disagree on the magnitude of the impacts. How much will settlement fails increase, and for how long will they remain high? Will there be a contraction in securities lending important enough to constrain liquidity? What proportion of FX trades will move to bilateral settlement, away from the more secure multilateral settlement platform? Betting on what happens after US T+1 in May 2024 could almost be a fun diversion, were the potential stability and competitiveness impacts not so serious.

European asset managers have introduced changes to their post-trade workflows to accommodate the need to settle US security trades on a T+1 basis after May 2024. These range from altering when and with whom FX trades are executed, to amending primary market settlement cycles for ETFs, to extending operating hours either in Europe or the US to cover US trading and post-trading hours. The costs and operational changes for asset managers are significant.

Europe is having to ask itself when and how it wants to introduce a shortening of its settlement cycle to align with the US. Yet the conditions for answering that question will not be optimal. At the same time as the new US T1 rule comes into force, and industry is trying to determine what - if any - the negative impacts are, the EU (EC, ESMA and industry) will be attempting to draw up a roadmap for the EU transition. Again, a more global, better-coordinated approach would have avoided heaping pain on top of pain when it comes to preparing for US T1 and beyond.

However, barring any major financial stability event linked with US T1, the strongest pull will be towards an alignment of settlement cycles globally. There is an inevitability to resolving for cash flow issues and funding mismatches, and this - combined with the zeal of other markets to move (UK) - the irrevocability of T1 becomes clearer.

Where Europe does have agency and can best control this process is in the timing of the move, the breadth of in-scope instruments and any potential phasing-in for international investors. All we can say at this stage is ‘stay tuned’ for announcements by ESMA, the EC and industry itself.

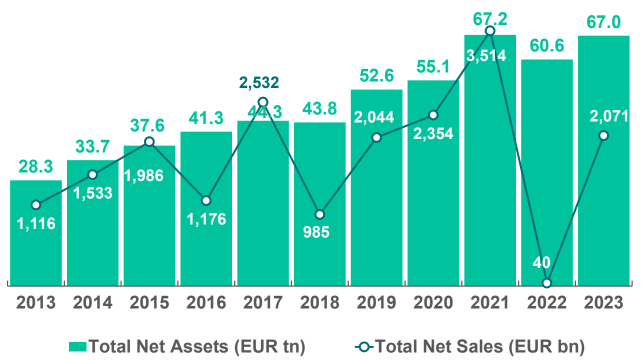
CHAPTER 4: WORLDWIDE INVESTMENT FUNDS

4.1 OVERVIEW

This chapter seeks to analyse the trends in the fund industry at world and regional level, focusing on four broad geographical regions; Europe, the United States (US), Asia-Pacific region[xxv] and the Americas.[xxvi] The analysis is based on data compiled by EFAMA in association with the International Investment Funds Association (IIFA). For comparability reasons, this data covers only substantively regulated, open-ended funds domiciled in the reporting countries.

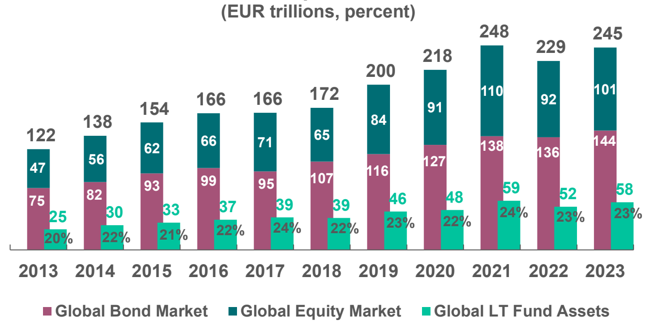
Net assets and net sales of worldwide investment funds. Worldwide investment fund assets grew by 10.5% in 2023, reaching EUR 67 trillion. Net sales of worldwide investment funds recovered from the extremely low net inflows recorded in 2022 (EUR 40 billion), rising to EUR 2,071 billion.

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



Investment funds and global capital markets. Long-term investment funds play a vital role in providing financing for companies and governments globally. Over the past decade, these funds have notably bolstered their role in financing the global economy. Using market values for global listed stocks and bonds as a proxy for the total size of global capital markets, we can see that the share of funds in global capital markets rose from 20% in 2013 to 24% at end 2017. Since then, this percentage has broadly stabilised at around 23%. The reasons behind this gradual increase in the earlier years of the decade are manifold, and vary between regions.

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



Source: EFAMA's calculation based on data from BIS, WFE, IIFA and EFAMA

In the United States, the robust expansion of investment funds can be attributed to the increasing popularity of mutual funds in the US retirement system, notably in 401(k) pension plans. In addition, the increasing demand for ETFs in recent years has contributed to this growth.

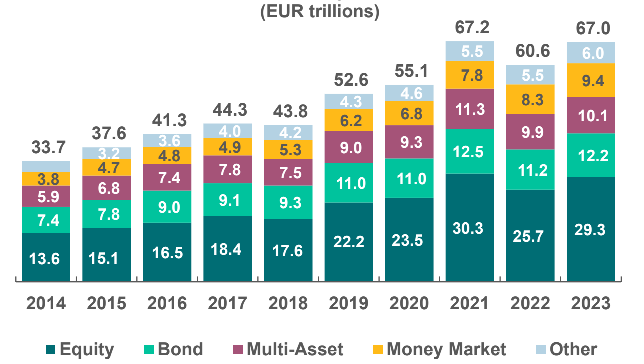
In Europe, the success of the UCITS brand, with its stable regulatory framework, fuelled the growth of the investment funds industry. This is evidenced by the sustained demand for UCITS by investors outside of Europe. Another factor is the general trend among institutional investors - mainly insurers and pension funds - for outsourcing larger proportions of their assets to professional asset managers, and to make greater use of funds in their portfolio allocation.

In emerging markets such as Brazil, China and India, the expansion of the fund industry is driven by the overall development and deepening of capital markets in those countries. Demand for investment funds tends to be strongly correlated to the level of capital market development in a country.

4.2 NET ASSETS AND NET SALES OF WORLDWIDE FUNDS BY TYPE

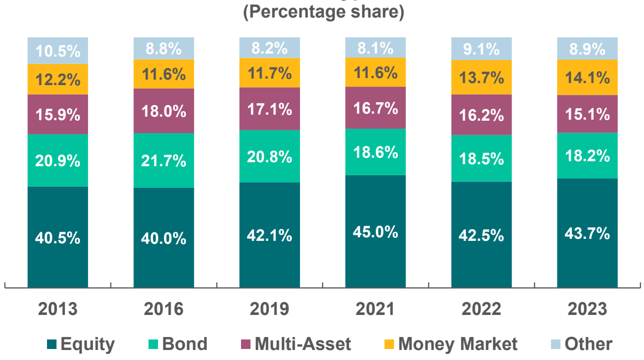
Net assets by fund type. Worldwide equity funds ended 2023 at EUR 29.3 trillion. Bond funds were the second-largest category, with EUR 12.2 trillion in net assets. Multi-asset funds represented EUR 10.1 trillion while MMFs amounted to EUR 9.4 trillion. Net assets of all types of funds grew during 2023, as both fixed-income and stock markets increased across most of the globe. Multi-asset funds saw the lowest growth rate (2%), as net sales were negative in 2023.

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



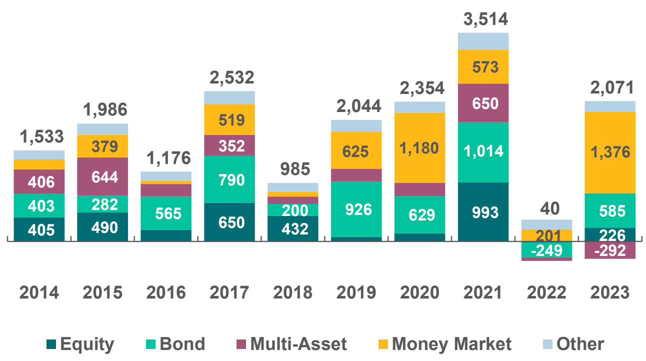
Market share evolution. The evolution in market share of each fund type shows that equity funds increased sharply between 2012-2021, driven by the strong growth in global stock markets, before declining in 2022. Its market share increased again in 2023 (43.7%) as stock markets recovered. Bond funds experienced an overall decline in market share over the past decade, as interest rates were low for much of the past ten years. The recovery in bond valuations in 2023 did not result in an increase in market share. The share of multi-asset funds has also slumped in recent years, from 18% in 2016 to 15.1% at end 2023, mainly as a result of lower net sales. The share of MMFs dropped during the early part of the decade, but stabilised at around 11.5% during 2016-2021. It then climbed sharply in 2022-2023, as a result of the relative drop in equity and fixed-income prices in 2022 along with strong net inflows in 2023.

4.4: Worldwide Assets of Investment Funds by Fund Type (Percentage share)



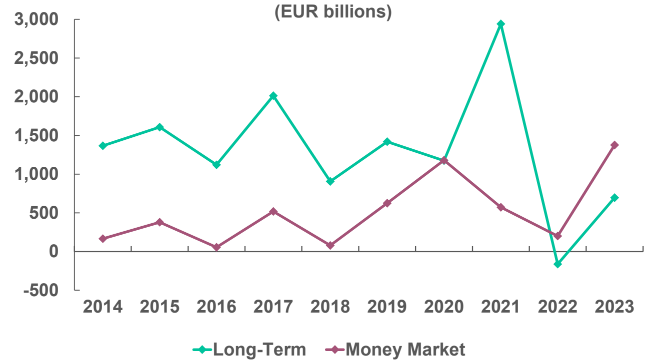
Net sales of worldwide funds. Following the sometimes-negative net sales of 2022, net sales returned to positive territory for most fund types during 2023. Only global multi-asset funds registered net outflows (EUR 292 billion). MMFs accounted for the bulk of worldwide net sales in 2023 and with EUR 1,376 of net inflows, an all-time record.

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

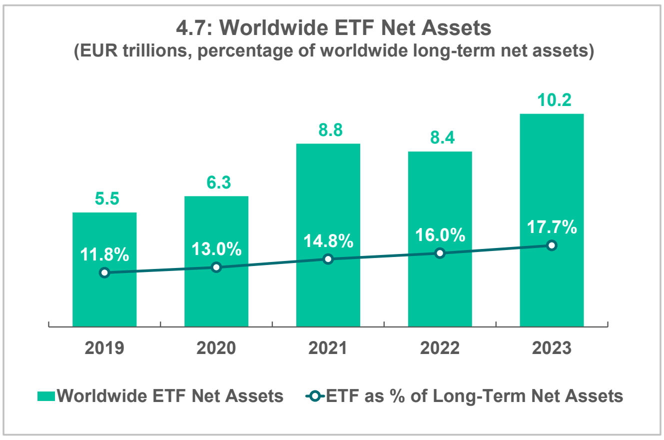


Net sales of long-term funds and MMFs. Comparing trends in the net sales of long-term funds and MMFs show that both types followed similar trends in the first years of the decade, rising and decreasing in tandem. Trends diverged in 2020, when net sales of long-term funds fell while net inflows into MMFs reached an all-time high, as investors sought safe haven in the midst of the COVID-19 crisis. In 2021, the situation reversed, as net sales of long-term funds rose to an all-time high while net sales of MMFs weakened. Net sales of long-term funds collapsed in 2022 and turned negative as interest rates increased rapidly. MMF flows also decreased but remained positive. In 2023, long-term funds rebounded to EUR 695 billion, thanks to the stabilisation in interest rates. MMFs bounced back stronger than before, driven by a negative yield curve.

4.6: Worldwide Long-Term and Money Market Fund Net Sales (EUR billions)

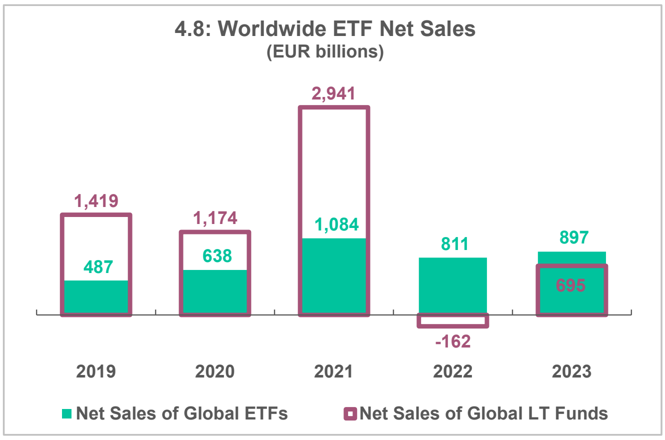


Worldwide ETF assets. Net assets of ETFs surged 21.5% in 2023, passing the EUR 10 trillion threshold. At end 2023, ETFs represented 17.7% of the global long-term fund market. This percentage has risen sharply over the past five years – up from 11.8% in 2019 – reflecting the increasing popularity of ETFs with investors across the globe.

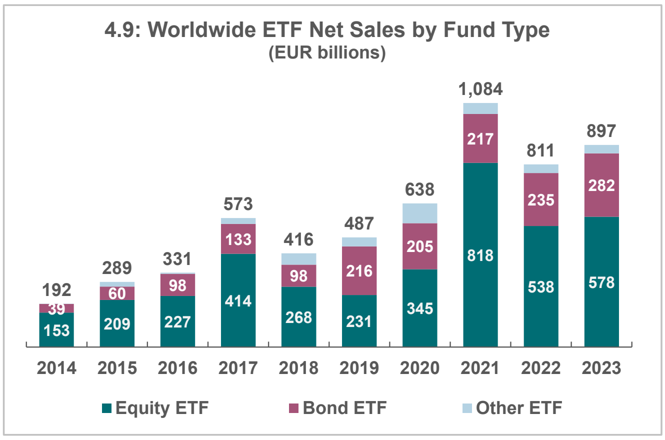


Net assets of ETFs by fund type. Breaking down assets by type, equity ETFs accounted for 77% of the worldwide ETF market at end 2023, followed by bond ETFs (18.3%) and other ETFs (4.7%). The percentage of equity ETFs rose from 76% at end 2022, a result of the stock market recovery in 2023.

Net sales of worldwide ETFs. Net inflows of ETFs amounted to EUR 897 billion in 2023, the second-highest sales of the past five years. These large inflows were greater than the total net sales of global long-term funds, which means that the net sales of worldwide long-term non-ETFs were negative (EUR 202 billion) for the second year in a row.



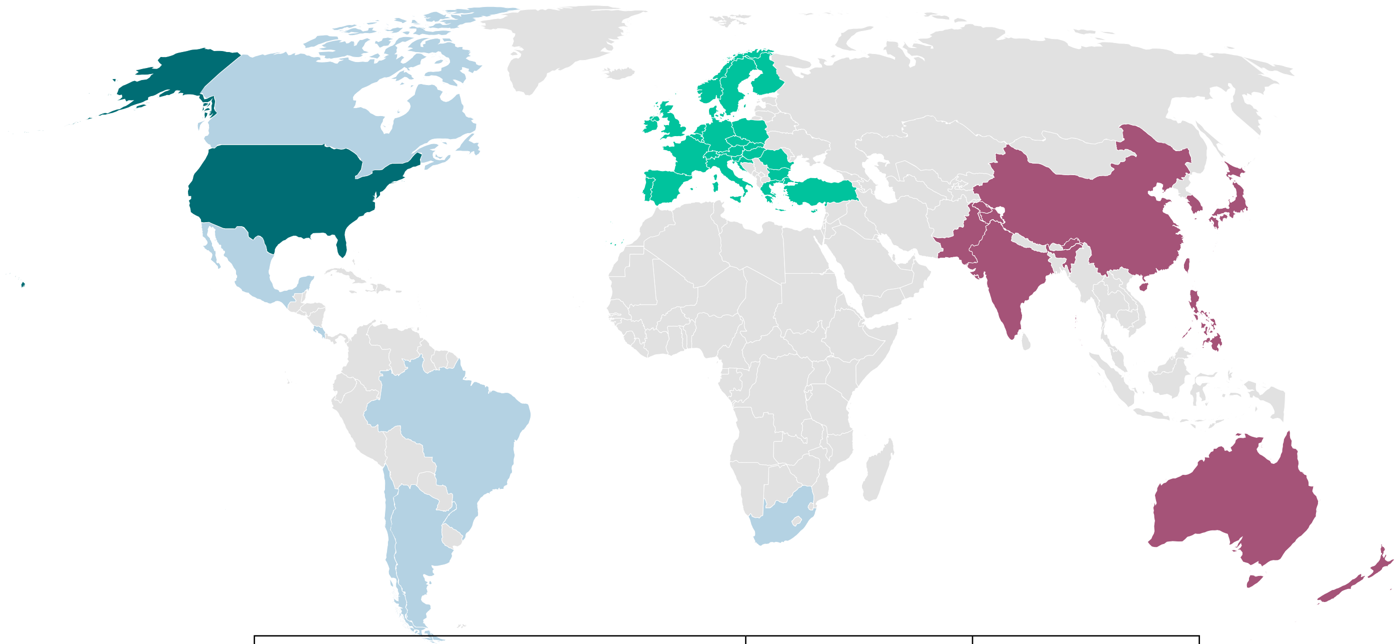
Net sales of ETFs by fund type. Net sales of equity ETFs amounted to EUR 578 billion in 2023, compared to EUR 538 billion in 2022. These constituted approximately two-thirds of the total ETF net inflows in 2023. Bond ETFs attracted EUR 282 billion in net new money, compared to EUR 235 billion in 2022. Despite significant fluctuations in bond valuations throughout 2022-2023, bond ETF inflows have remained relatively stable in recent years.



4.3 NET ASSETS OF WORLDWIDE FUNDS BY REGION

Regional net assets in 2023. In the US, net assets of investment funds ended 2023 at EUR 33.2 trillion, while European investment fund net assets[xxvii] broke the EUR 20 trillion threshold (EUR 20.1 trillion). In the Asia-Pacific region - which includes major Asian economies such as China, Japan and India, as well as Australia and New Zealand - investment fund assets amounted to EUR 8.9 trillion. Net assets of funds in the Americas - including the main economies of the region such as Brazil and Canada (but excluding the US) - stood at EUR 4.8 trillion at year end 2023.

4.10: Worldwide Assets of Investment Funds by Region at End 2023



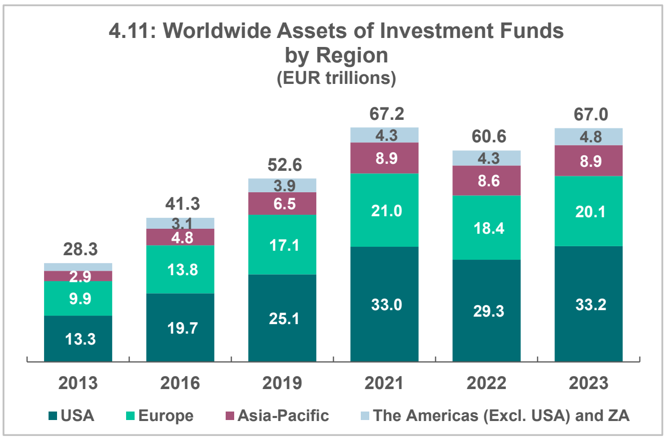
Region	EUR Trillions	Percentage of Total
USA	33.2	50%
Europe	20.1	30%
Asia-Pacific	8.9	13%
The Americas (Excl. USA) and South Africa	4.8	7%
Worldwide Total	67.0	100%

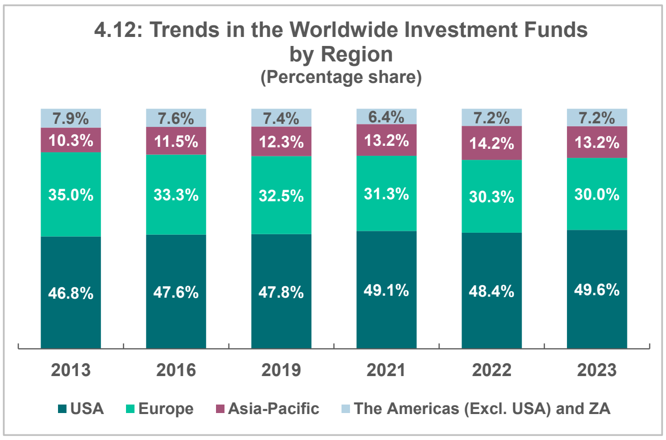
The United States. Over the past decade, the US maintained its dominant position as the largest investment fund market in the world. Its market share grew from 46.8% in 2013 to almost half of the total market (49.6%) in 2023.

Europe. Europe has seen a gradual decline in its market share, decreasing from 35% in 2012 to 30% by end 2023. This trend reflects the comparatively slower growth of European financial markets compared to other regions.

Asia-Pacific. The share of the Asia-Pacific region rose from 10.3% in 2013 to 14.2% in 2022. China, Australia and Japan held the largest shares of fund assets in this region, accounting for 4.5%, 3.6% and 3% of global assets, respectively. In 2023, however, this share dropped to 13.2%, due to a decline of Chinese fund assets.

The Americas. The smallest region in terms of net assets, its market share rose from 6.4% in 2021 to 7.2% at end 2023. This was mainly due to an increase in the net assets of Brazilian funds (16.5% in 2023), attributable to a robust performance of domestic capital markets and an overall appreciation of the Brazilian Real.





Top-15 domiciles in 2023. The table below highlights the net assets and market shares of the 15 leading domiciles in 2023. It also shows net asset growth and net assets in percentage of GDP. Eight European countries are represented; Luxembourg, Ireland, Germany, France, the UK, Switzerland, the Netherlands and Sweden.

In 2023, only China recorded a net asset decrease – of 0.9% - as stock valuations in China declined. All other main domiciles recorded an increase in net fund assets, with two European countries - Sweden (18%) and Switzerland (17%) - recording the strongest yearly growth.

4.13: Net Assets of Investment Funds in Top 15 Domiciles in 2023

Countries	Net Assets End 2023 (1) EUR billions	Market Share 2023	Asset Growth in 2023	Net Asset in Percentage of GDP
United States	33,230	49.6%	13.3%	132%
Europe	20,077	30.0%	9.2%	93%
Luxembourg	5,285	7.9%	5.1%	6664%
Ireland	4,083	6.1%	11.8%	809%
China	3,033	4.5%	-0.9%	19%
Germany	2,633	3.9%	7.5%	64%
Australia	2,394	3.6%	5.1%	150%
Brazil	2,290	3.4%	16.5%	113%
France	2,266	3.4%	8.1%	81%
Canada	2,085	3.1%	7.2%	106%
Japan	2,013	3.0%	5.2%	52%
United Kingdom	1,909	2.8%	8.6%	73%
Switzerland	757	1.1%	17.0%	93%
Netherlands	693	1.0%	8.1%	67%
Korea, Rep. of	676	1.0%	7.6%	43%
Sweden	585	0.9%	18.0%	107%

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

Equity funds by region. In the global equity fund market, the US held a market share of 62% in 2023, followed by Europe (22%) and Asia-Pacific (12%). The Americas accounted for only 3%.

Bond funds by region. Among worldwide bond funds, the US accounted for the largest share (46%) followed by Europe with 33%. The market share of the Americas (12%) was larger than that of Asia-Pacific (8%).

Multi-asset funds by region. In the global multi-asset fund market, Europe held the largest market share (39%) compared to 38% in the US. The Americas were third with 17% and Asia-Pacific counted for 6%.

MMFs by region. The US held a 57% share of the worldwide MMF market at end 2023. The Asia-Pacific region accounted for 21% and Europe for 19%.

Other funds by region. Europe held the largest market share of global other funds at end 2023 (64%), followed by Asia-Pacific (29%). The market shares of the US and the Americas were almost negligible, at 2% and 6%, respectively.

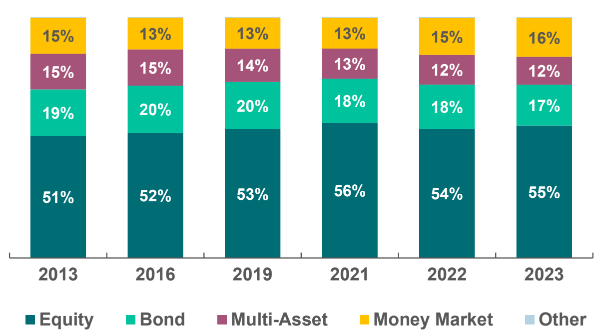
ETFs by region. In the worldwide ETF market, the US was by far the dominant country, accounting for 72% at end 2023. European ETFs held a 16% share and the Asia-Pacific region 10%. The ETF market in the Americas accounted for only 3%.

4.14: Worldwide Net Assets of Investment Funds by Fund Type at End 2023

Region	USA		Europe		Asia-Pacific		The Americas (Excl. USA) and South Africa		World
	EUR billions	percent	EUR billions	percent	EUR billions	percent	EUR billions	percent	EUR billions
Equity	18,254	62%	6,524	22%	3,579	12%	955	3%	29,312
Bond	5,647	46%	4,077	33%	999	8%	1,468	12%	12,191
Multi-Asset	3,850	38%	3,926	39%	606	6%	1,740	17%	10,123
Money Market	5,357	57%	1,758	19%	1,987	21%	347	4%	9,449
Other	122	2%	3,791	64%	1,704	29%	339	6%	5,956
Total Funds	**33,230**	**50%**	**20,077**	**30%**	**8,875**	**13%**	**4,849**	**7%**	**67,030**
of which - ETFs	7,317	72%	1,589	16%	1,012	10%	292	3%	10,209

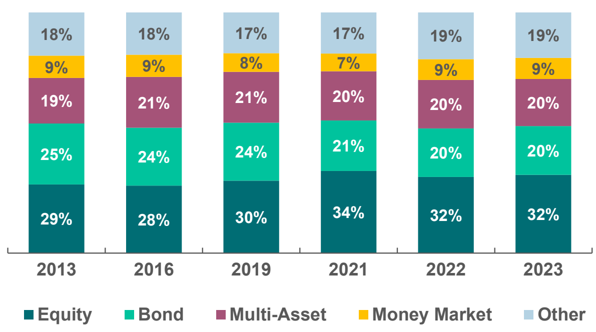
United States by fund type. At close 2023, equity funds comprised over half of total fund assets in the US (55%). The remaining portion of the fund market was divided between bond funds (17%), MMFs (16%) and multi-asset funds (12%). Compared to 2022, the share of equity funds increased, thanks to the recovery of stock markets. Also, the share of MMFs increased, mainly due to exceptionally strong net inflows in 2023.

4.15: Net Assets by Fund Type - USA
(Percent)



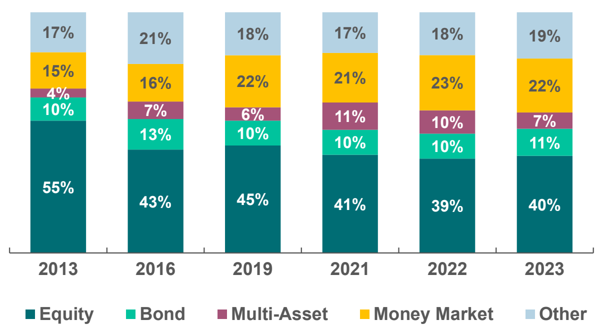
Europe by fund type. In Europe, equity funds represented 32% of fund assets, followed by bond funds (20%), multi-asset funds (20%) and other funds (19%). MMFs comprised 9% of the total. When comparing with 2022, the share of equity funds edged up 1%, the result of the recovery in equity valuations.

4.16: Net Assets by Fund Type - Europe
(Percent)



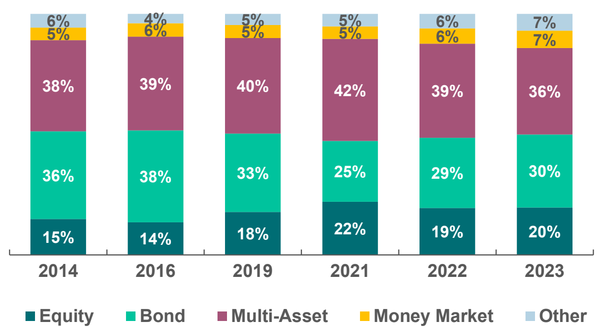
Asia-Pacific by fund type. Equity funds accounted for 40% of the fund market in the Asia-Pacific region, primarily due to the prevalence of these funds in Japan and Australia. The high market share of MMFs (22%) is due to China, which has a well-developed MMF industry. Other funds and bond funds accounted for 19% and 11%, respectively. Compared to 2022, multi-asset funds recorded a significant drop in market share - from 10% in 2022 to 7% in 2023 - due to both net outflows and corresponding rises in the equity and bond fund shares, as these funds attracted net inflows.

4.17: Net Assets by Fund Type - Asia- Pacific
(Percent)



The Americas by fund type. The investment fund market is structured differently in the Americas. Multi-asset funds were the largest fund type (36%), primarily due to their popularity in Canada. Bond fund followed at 30%, then equity funds at 20%. However, the share of multi-asset funds dropped substantially in 2023, a continuation of the trend in 2022.

4.18: Net Assets by Fund Type - The Americas (Excl. USA) and South Africa
(Percent)



4.19: Worldwide Net Assets of Investment Funds by Region at End 2023

Region	Equity		Bond		Multi-Asset		Money Market		Other		Total Funds
	EUR billions	%	EUR billions	%	EUR billions	%	EUR billions	%	EUR billions	%	EUR billions
USA	**18,254**	**55%**	**5,647**	**17%**	**3,850**	**12%**	**5,357**	**16%**	**122**	**0%**	**33,230**
Europe	**6,524**	**32%**	**4,077**	**20%**	**3,926**	**20%**	**1,758**	**9%**	**3,791**	**19%**	**20,077**
Asia-Pacific	**3,579**	**40%**	**999**	**11%**	**606**	**7%**	**1,987**	**22%**	**1,704**	**19%**	**8,875**
of which ➤ Australia	1,005	42%	99	4%	0	0%	243	10%	1,047	44%	2,394
➤ China	361	12%	677	22%	504	17%	1,437	47%	53	2%	3,033
➤ India	237	43%	84	15%	72	13%	57	10%	100	18%	549
➤ Japan	1,869	93%	25	1%	0	0%	97	5%	23	1%	2,013
The Americas (Excl. USA)	**955**	**20%**	**1,468**	**30%**	**1,740**	**36%**	**347**	**7%**	**339**	**7%**	**4,849**
of which ➤ Brazil	169	7%	1,156	50%	572	25%	113	5%	280	12%	2,290
➤ Canada	695	33%	259	12%	1,047	50%	52	3%	30	1%	2,085
➤ Mexico	36	20%	22	12%	3	2%	113	62%	7	4%	181
World	**29,312**	**44%**	**12,191**	**18%**	**10,123**	**15%**	**9,449**	**14%**	**5,956**	**9%**	**67,030**

Box 9
Exploring new obligations under DORA

Author: **Zuzanna Bogusz**

In the calendars of financial entities - asset managers included - 17 January 2025 marks an important date. After then, they will be obliged to adhere to the new rules of harmonised regulation in the Digital Operational Resilience Act[1], known by the charming abbreviation, 'DORA'. This is a European response to the increasing reliance of the financial sector on information and communication technologies (ICT), as well as growing interconnectedness between financial entities and their service providers. These render the EU financial sector as a whole more prone to cyber-attacks, which are becoming increasingly sophisticated.

The DORA framework builds on the following main pillars: managing risks (both internal and those connected to ICT third-party providers), testing digital operational resilience, reporting major incidents, sharing information and intelligence on cyberthreats as well as overseeing third-party providers critical from the perspective of the entire financial industry. Save for the last, all the other elements are addressed to financial entities which put the bulk of the implementation effort onto them. Fortunately, these are not entirely new concepts; market participants have been safeguarding their systems and data against any interference and fulfilling obligations on outsourcing, regulated in their sectorial legislation.

What DORA has brought about, however, is a single, harmonised framework for the entire financial market, covering banks, insurance companies, central securities depositories, investment firms, asset managers and others. Implementing 'a one-size-fits-all' approach will be particularly challenging for fund managers, whose structure, size and business models vary significantly. They range from companies with a workforce of less than 50 up those with more than 1000 employees. Most importantly, they also differ significantly from those entities providing critical IT infrastructure and subject to the NIS2 Directive[2], such as banks or insurance companies. This issue has been addressed in DORA by a wide incorporation of the principle of proportionality. This allows the size and overall risk profile, as well as the nature, scale and complexity of services, activities and operations of financial entity to be taken into account when applying particular obligations.

However, the implementation effort doesn't end with DORA. The regulation also includes numerous mandates for the European Supervisory Authorities (ESAs), which are obliged to specify further details of the framework by means of technical standards. As we saw during the course of the consultations carried out by the ESAs in 2023 and 2024, the principle of proportionality was often insufficiently included. For example, the standard on ICT risk management framework, due to its prescriptiveness, did not leave much room for the entities to assess whether all elements of the framework needed to be implemented according to their situation and business model. Further standards on incident reporting produced solutions and timelines likely to have a significant impact on financial entities' resources, when in fact they should be concentrating on resolving the problem caused by cyber-attack. Also, in the area of ICT services being further subcontracted by third-party service providers, we saw the weight of the selection and oversight of subcontractors significantly shifted onto financial entities.

We believe in and support the goals and principles of DORA, including proportionality in applying its obligations. Therefore, we call for this to be fully embedded in the technical standards currently under discussion. This is vital to the success of this framework, as only those solutions tailored to entity's particular situation can strike the right balance between compliance obligations and operability, something that is crucial in the event of an attack.

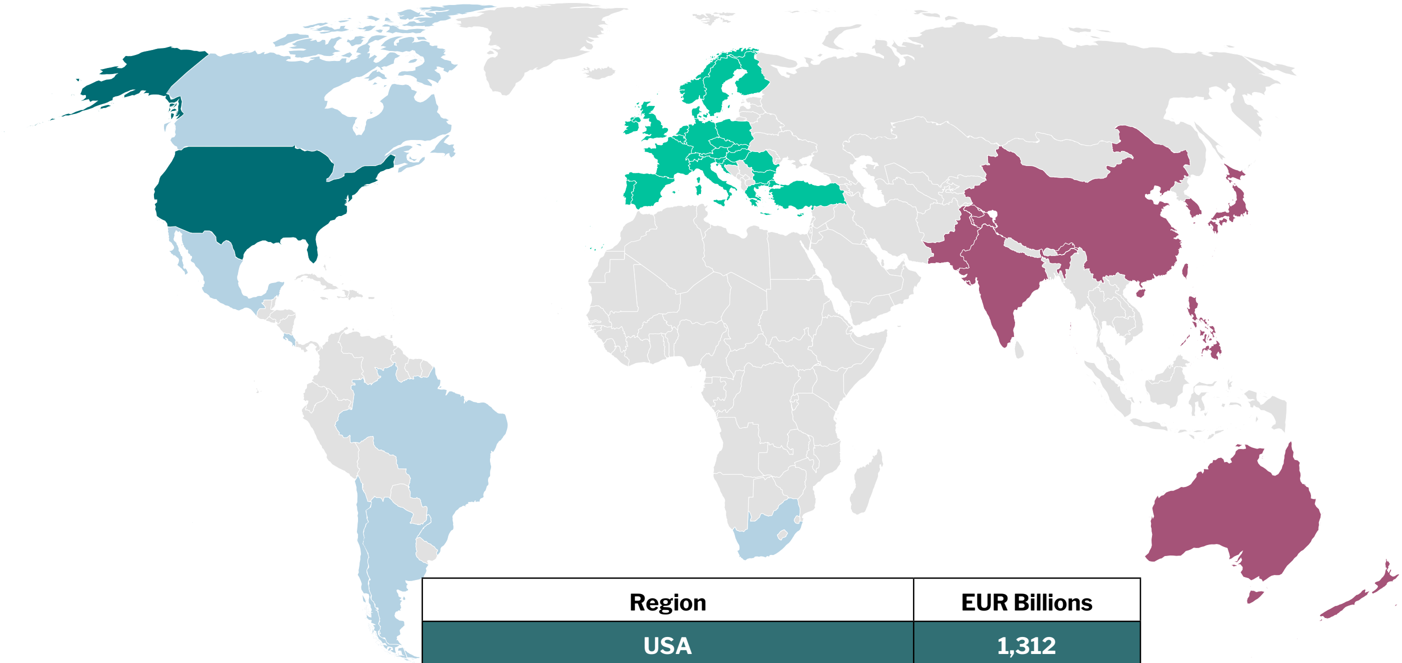
1 Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 (Text with EEA relevance).

2 Directive (EU) 2022/2555 of the European Parliament and of the Council of 14 December 2022 on measures for a high common level of cybersecurity across the Union, amending Regulation (EU) No 910/2014 and Directive (EU) 2018/1972, and repealing Directive (EU) 2016/1148.

4.4 NET SALES OF WORLDWIDE FUNDS BY REGION

Regional net sales in 2023. A breakdown of worldwide net sales in 2023 shows that inflows were mainly concentrated in the US (EUR 1,312 billion). Asia-Pacific region reached EUR 484 billion, and Europe EUR 264 billion. Within the Asia-Pacific region, the bulk of net sales in 2023 were mainly due to strong net inflows in China (EUR 293 billion). Net sales of funds in the Americas amounted to only EUR 11 billion, as Brazil registered net outflows (EUR 57 billion), offsetting net inflows in Canada (EUR 22 billion), Mexico (EUR 18 billion) and Argentina (EUR 15 billion).

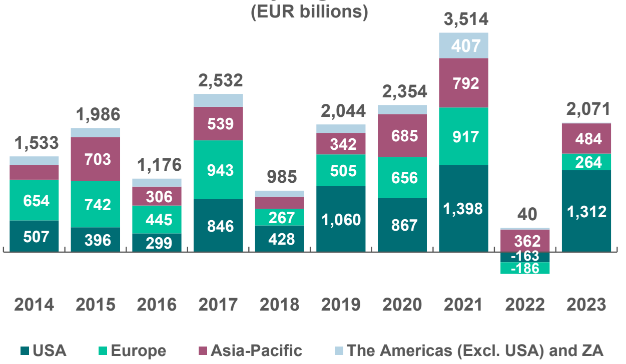
4.20: Net Inflows into Worldwide Investment Funds by Region in 2023



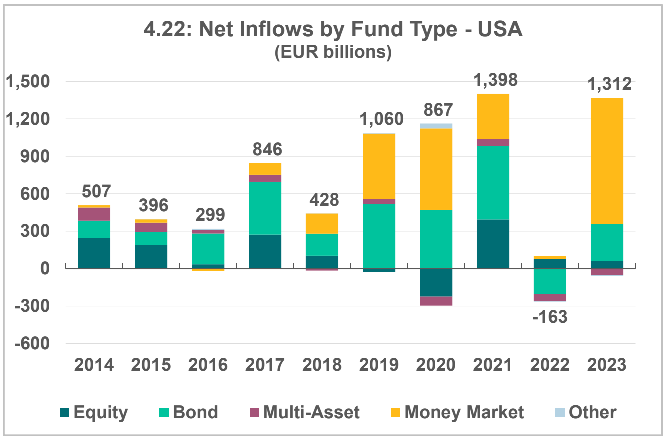
Region	EUR Billions
USA	1,312
Europe	264
Asia-Pacific	484
The Americas (Excl. USA) and South Africa	11
Worldwide Total	2,071

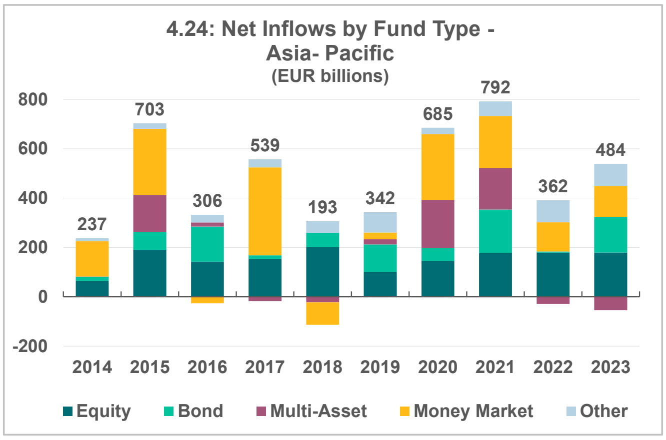
Evolution of worldwide net sales. After the net outflows in 2022 - concentrated in Europe and the US, due to rapidly rising interest rates and the war in Ukraine weighing on investor sentiment - global net fund flows recovered during 2023. A halt in rate hikes resulted in positive net sales in the three major global regions; the US, Europe and Asia-Pacific.

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

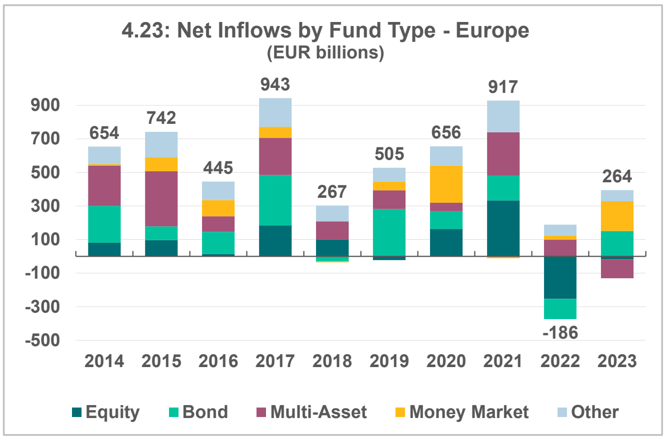


Net sales in the United States. Fund flows in the US rose to EUR 1,312 billion in 2023, rebounding from net outflows (EUR 163 billion) in 2022. These net sales were the second-highest of the decade, after 2021. MMFs accounted for the vast majority of net inflows in 2023 (EUR 1,011 billion), an all-time record. The rush to MMFs was triggered by the Silicon Valley Bank collapse in March 2023, which led many retail investors to move their savings from bank deposits to money market funds. Strong inflows continued throughout the year, as certain MMFs in the US now offer yields above 5%, some of the highest returns in years.[xxviii] The hiatus in Federal Reserve rate hikes in 2023 and - towards the end of the year - the anticipation of possible interest rates cuts, led to a rebound of bond fund inflows (EUR 296 billion). Equity fund flows ended the year in positive territory (EUR 62 billion), primarily a result of strong net inflows in the last quarter of 2023, when stock markets performed well. Multi-asset fund flows were negative in 2023 (EUR 49 billion), as in the previous year.



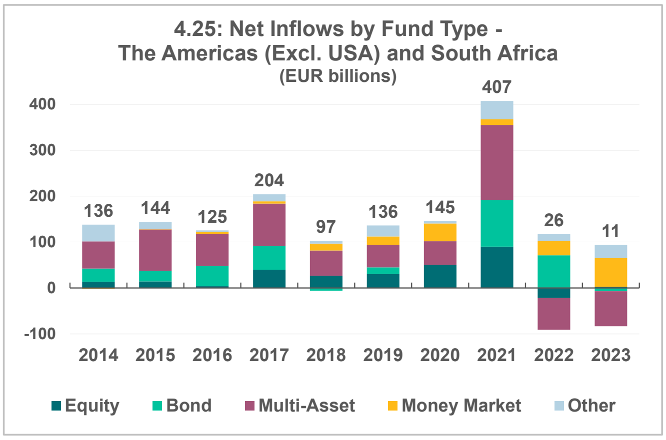


Net sales in Europe. Net sales of European funds in 2023 were positive (EUR 264 billion). These overall net inflows were primarily driven by fixed-income funds, as both MMFs and bond funds, attracted solid net inflows of EUR 177 billion and EUR 152 billion, respectively. Multi-asset funds registered net outflows (EUR 112 billion) and net sales of equity funds were also negative (EUR 18 billion).



Net sales in the Asia-Pacific region. In 2023, net fund sales in Asia-Pacific were positive (EUR 484 billion), thanks to robust net inflows into equity funds (EUR 180 billion), bond funds (EUR 144 billion), MMFs (EUR 125 billion) and - to a lesser extent - 'other' funds (EUR 90 billion). Multi-asset fund flows were negative (EUR 55 billion). A large proportion of the 2023 net inflows into equity funds were in Japanese funds (EUR 69 billion), traditionally a strong equity fund market. Chinese equity funds accounted for the highest regional inflows (EUR 93 billion); a somewhat surprising development given the poor performance of Chinese stock markets in 2023. The bond fund net inflows were also mainly due to China (EUR 139 billion), as were the MMF inflows (EUR 109 billion). The MMF market in China is notably well-developed, with many Chinese retail investors using MMFs as a direct substitute for bank deposits.

Net sales in the Americas. In the Americas (excluding the US), 2023 fund sales amounted to EUR 11 billion, the lowest net inflows of the decade. MMFs accounted for the bulk of these net inflows (EUR 63 billion), as the inverted yield curve in many of the countries of the region made these funds attractive to investors. However, unlike in Europe and the US, bond funds registered net outflows in 2023 (EUR 7 billion). Net sales of equity funds were virtually flat (EUR 3 billion), while multi-asset funds accounted for the bulk of the net outflows (EUR 76 billion). As in the previous year, Brazil - the region's largest fund market - had a significant impact on the 2023 net sales, with fund sales negative (EUR 57 billion), mainly due to net outflows from bond and multi-asset funds (EUR 39 billion) and equity funds (EUR 11 billion). Political uncertainty and stock market volatility throughout the year were key factors in dampening investor confidence in 2023. In addition, rate cuts by the Banco do Brasil - the Brazilian central bank - in the second half of the year, may have led some investors to seek higher yields abroad.



Net sales – regional and country breakdown. The following table highlights the 2023 net sales of investment funds in the four above-mentioned regions, broken down by main fund type. It also provides data on the net fund sales in the larger countries, in both the Asia-Pacific and Americas regions.

4.26: Net Sales of Investment Funds in 2023 by Region, Country and Fund Type
(EUR billions)

	Long-Term				Money Market	Total
	Equity	Bond	Multi-Asset	Other (1)		
USA	62	296	-49	-8	1,011	1,312
Europe	-18	152	-112	66	177	264
Asia-Pacific	180	144	-55	90	125	484
of which ➤ China	93	139	-61	13	109	293
➤ India	18	-2	10	8	-3	32
➤ Japan	69	-2	-	3	8	78
➤ Korea	-1	8	-3	31	10	46
The Americas (Excl. USA) and South Africa	3	-7	-76	28	63	11
of which ➤ Brazil	-11	-39	-39	21	12	-57
➤ Canada	14	26	-41	5	18	22
➤ Mexico	0.5	3	0.04	0.2	14	18
➤ South Africa	-0.5	1	3	2	1	6
World	**226**	**585**	**-292**	**177**	**1,376**	**2,071**

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

Notes

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

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

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

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

v Funds domiciled in Switzerland that fulfil the UCITS criteria are classified as UCITS. Non-traditional funds are classified as AIFs.

vi Funds domiciled in Switzerland, Turkey and the United Kingdom that fulfil the UCITS criteria are classified as UCITS.

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

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

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

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

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

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

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

xiv See EFAMA Market Insights #13: 'UCITS ETFs: A growing market in volatile times'.

xv Data for 2013 are non-UCITS figures.

xvi Data for real estate AIFs domiciled in the Netherlands are only included from 2015 onwards, due to the lack of availability of data. The year-on-year asset growth is calculated excluding Dutch data for the 2013-2015 period, and including Dutch data from 2016 onwards.

xvii This chapter is based on data from the ECB, which covers Member States of the European Union, including the three Baltic countries - Estonia, Latvia and Lithuania. Five EFAMA member countries that are not part of the EU (Liechtenstein, Norway, Switzerland, Turkey and the United Kingdom) are not covered in this chapter.

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

xix Cross-border UCITS and AIFs are approximated here as all UCITS and AIFs domiciled in the two main cross-border domiciles - Luxembourg and Ireland - as well as a few smaller cross-border EU domiciles (Cyprus and Malta). The vast majority of the UCITS and AIFs domiciled in those domiciles are sold to non-domestic investors. Using ECB data, we subtract the fund holdings of UCITS and AIFs domiciled in Luxembourg and Ireland that are held domestically to finetune our estimation of cross-border UCITS and AIFs.

xx Sourced from ECB data based on the European System of Accounts (ESA 2010) and available via the ECB statistical data warehouse. The European aggregate covers all countries from the European Union, including the three Baltic countries - Estonia, Latvia and Lithuania - who are not EFAMA members.

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

xxii Remaining financial intermediaries consist of all other financial corporations or quasi-corporations that are principally engaged in financial intermediation by incurring liabilities in forms other than deposits, as well as those entities engaged primarily in long-term financing. Financial intermediaries listed explicitly as other types of investors: insurers and pension funds, long-term funds and MFIs are excluded. This category mainly consists of financial vehicle corporations, security and derivative dealers, financial auxiliaries, such as central counterparties and stock exchanges as well as captive financial institutions, such as holding companies or money lenders.

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

xxiv The shares of money market funds and LT funds are based on ECB data on the fund holdings of EA households. The breakdown of LT funds by type is estimated on the basis of a subset of funds in Morningstar that are labelled as non-institutional and are registered for sale in one or several European countries.

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

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

xxvii To allow for easy comparability across countries, only substantially regulated, open-ended investment funds are included.

xxviii See Gush of cash into money market funds tipped to continue in 2024, Financial Times, 03 December 2023.

Part 2

COUNTRY REPORTS

TABLE OF CONTENTS

AUSTRIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Austria (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	194.1	201.5	229.6	198.7	211.4
Funds domiciled abroad and promoted by national providers					
Total net assets	194.1	201.5	229.6	198.7	211.4

Table 2: Net Sales of Investment Funds in Austria (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	4,295.1	6,125.7	15,244.8	-483.1	-818.5
Funds domiciled abroad and promoted by national providers					
Total net sales	4,295.1	6,125.7	15,244.8	-483.1	-818.5

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	18.7	20.3	27.2	23.9	27.3
Bond funds	37.4	36.8	37.4	30.3	32.4
Multi-asset funds	27.7	31.5	39.8	35.0	36.2
Money market funds					
Guaranteed/protected funds	0.2	0.1	0.04	0.01	
Absolute Return Innovative Strategies (ARIS) funds	2.0	1.2	1.3	1.3	1.5
Other funds	0.2	0.2	0.2	0.2	0.2
Total	86.3	89.9	106.0	90.8	97.6
of which ➤ ETFs					
➤ Funds of funds	18.9	19.7	21.9	17.7	17.9

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	429.0	1,339.3	2,641.9	1,321.1	1,097.0
Bond funds	-711.8	-739.2	955.5	-2,368.4	568.7
Multi-asset funds	3,084.4	2,588.7	5,623.5	1,109.9	-1,465.5
Money market funds					
Guaranteed/protected funds	-43.9	-33.8	-11.3	-32.5	-1.2
Absolute Return Innovative Strategies (ARIS) funds	-206.7	-209.1	72.5	145.5	60.0
Other funds	67.6	7.8	24.2	-20.0	-7.8
Total	2,618.7	2,953.6	9,306.2	155.6	251.1
of which ➤ ETFs					
➤ Funds of funds	605.1	266.6	1,250.3	28.5	-529.5

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	14.2	13.4	16.9	12.5	13.5
Bond funds	30.0	30.8	30.6	26.6	30.2
Multi-asset funds	50.9	55.1	62.8	55.2	59.1
Money market funds					
Guaranteed/protected funds	0.4	0.2	0.2	0.2	0.1
Absolute Return Innovative Strategies (ARIS) funds	2.9	2.3	2.1	2.3	1.4
Real estate funds	9.2	9.6	10.7	11.0	9.3
Other funds	0.1	0.1	0.1	0.2	0.1
Total	107.7	111.5	123.5	108.0	113.8
of which ➤ ETFs					
➤ Funds of funds	13.1	11.6	12.0	9.3	9.4
➤ Institutional funds	95.2	98.8	108.8	93.6	100.6

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	424.9	-163.3	669.8	-718.0	-632.2
Bond funds	-86.8	384.0	305.7	43.8	1,849.0
Multi-asset funds	934.9	2,993.8	4,310.6	-475.7	88.2
Money market funds					
Guaranteed/protected funds	-116.4	-151.0	-24.3	-20.9	-23.6
Absolute Return Innovative Strategies (ARIS) funds	-164.0	-215.5	-304.5	418.9	-610.4
Real estate funds	680.0	340.0	969.6	98.8	-1,720.4
Other funds	3.8	-16.0	11.7	14.3	-20.1
Total	1,676.4	3,172.1	5,938.5	-638.7	-1,069.5
of which ➤ ETFs					
➤ Funds of funds	-188.2	314.2	-671.3	-576.8	-628.8
➤ Institutional funds	1,095.0	2,878.1	4,498.1	-879.8	793.8

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	905	901	898	869	879
Home-domiciled AIFs	1,036	1,057	1,081	1,112	1,109
Foreign funds registered for sales					11,229
➤ By national promoters					
➤ By foreign promoters					
Fund launches	53	70	76	68	50
Fund liquidations	279	217	298	129	303
Fund mergers & acquisitions	304	206	186	183	161

5. MARKET DEVELOPMENTS IN 2023

Last year proved a rather tumultuous one for global financial markets. The excitement surrounding artificial intelligence propelled stock markets, while bond markets experienced heightened volatility. In particular, banking crises in the US and Switzerland led to a temporary setback in bond markets. Nonetheless, the restrictive monetary policies of central banks in industrialised nations caused bond yields to soar, culminating in October 2023, when the yield on 10-year US Treasury bonds reached 5% for the first time in 16 years. In Austria, interest rate developments took a significant toll, notably on capital-intensive sectors such as construction and manufacturing.

Despite this, positive developments were observed in almost all asset classes. This is reflected in a strong performance of the near-2,000 funds captured in our associations database. The fund volume of Austrian investment fund management companies has increased by 8% since the beginning of 2023 to approximately EUR 202.1 billion. This is approaching the record level of 2021, which reached EUR 218.8 billion.

Net inflows amounted to EUR 609.2 million, with bond funds attracting the highest net inflows of around EUR 2.7 billion, followed by equity funds at approximately EUR 442.7 million. By the end of December 2023, the 15 Austrian management companies were managing 1,973 investment funds. During the year, 204 funds were closed, and 125 were merged, while 50 funds were launched. However, developments in interest rates have significantly impacted Austrian real estate funds. Their fund volume has decreased by 15% since the end of 2023 to around EUR 9.3 billion. The five real estate investment fund companies managed 13 funds (eight mutual funds and five special funds).

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

Delegation: The Austrian administrative high court (Verwaltungsgerichtshof) ruled that the delegation of portfolio management under UCITS/AIFMD does not make MiFID rules applicable; i.e. a delegation is not a MiFID-service (VwGH 15/6/2023, Ra 2021/01/0176).

SICAF: The Act on Venture Capital Funds (Wagniskapitalfondsgesetz, Law Gazette No. I 111/2023) formally introduced a corporate fund structure into Austrian Law. In addition, under the Investment Fund Act special funds (Spezialfonds) are permitted to invest up to 20% in illiquid assets that are eligible under the Act on Venture Capital Funds. (However, UCITS are still - and will remain - contractual funds).

Other: The Austrian FMA updated its 'Fit & Proper' guidelines for members of management boards, supervisory boards and identified staff. This is also applicable to ManCos. In addition, the FMA updated its guidelines on due diligence processes conducted by ManCos/AIFM. (FMA-Mindeststandards - FMA Österreich).

6.2. MiFID II

Yes, both the FinDatEx EMT (European MiFID Template) and/or EET (European ESG Template) are widely used in the overall distribution and disclosure processes in Austria.

6.3. CSDR

There were no notable developments in this area in 2023.

6.4. EMIR

There were no notable developments in this area in 2023.

6.5. ELTIF

There were no notable developments in this area in 2023.

6.6. Sustainable finance

The Austrian NCA seems to be observing this matter and is apparently still collecting information (also through an ongoing CSA). At least there doesn't seem to be much of an issue at the moment.

All asset managers are exempt from reporting under the Corporate Sustainability Reporting Directive (CSRD). They are either consolidated within a group or generally exempt due to their size.

Presumably, Austrian asset managers' experiences do not differ much from those of asset managers in other EU Member States when it comes to sourcing reliable Environmental, Social, and Governance (ESG) data and ratings for reporting and disclosure purposes. The German NCA BaFin, for example, has conducted a survey and published a report on this matter, see link.

Issues mentioned in that regard are:

- varying data quality (coverage, timeliness, variability in disclosures of company data and estimations, implausible data?), lack of comparability, inappropriate costs (likely attributed to market concentration)

6.7. Stewardship

Virtual shareholders meetings are permitted through a newly enacted law (Virtuelle Gesellschafterversammlungen-Gesetz, Law Gazette No. I 79/2023 RIS - Virtuelle Gesellschafterversammlungen-Gesetz - Bundesrecht konsolidiert, Fassung vom 04.03.2024 (bka.gv.at)). Previously, virtual shareholders meetings were allowed by COVID-19 measures (restricted until 20/6/2023).

6.8. Benchmarks

There were no notable developments in this area in 2023.

6.9. Anti-Money Laundering

There were no notable developments in this area in 2023.

6.10. Digital Finance & Cybersecurity

The Austrian Financial Market Authority (FMA) has placed a supervisory focus on digital operational resilience.

The Austrian Financial Market Authority (FMA) regularly evaluates the degree of digitalisation (including IT infrastructure, ICT interconnections and cyber-resilience) in use in the Austrian financial sector.

6.11. Other regulatory developments

The Austrian Financial Market Authority (FMA) requires investment disclosures under the Transparency Directive to also apply to holders of shares in investment funds. This has been confirmed by the administrative high court (Verwaltungsgerichtshof) (VwGH 29.8.2023, Ro 2022/02/0013). As a consequence, end-investors in Austrian funds (particularly institutional investors) are required to notify the NCA when they hold more than a certain proportion of voting rights in a listed company via (multiple) open-ended investment funds (at 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% respectively of the total voting rights). ManCos are indirectly affected, because they must inform shareholders (on a daily basis) of any change in the stock market.

7. PENSIONS & PEPP

There were no notable developments in this area in 2023.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

WagniskapitalfondsG 2023

In 2023 the Austrian government published a new Venture Capital Fund Act (WKFG), which provides for a new legal investment funds entity. This entity is a closed-end fund structure that can be offered to qualified investors.

In addition, the new legislation has brought about an amendment to the threshold for the acquisition of illiquid assets by other open-end funds structured as Austrian Spezialfonds. These types of fund are allowed to invest a maximum of 20% of the NAV in illiquid underlying assets (such as private equity).

There has also been an update introduced for the provisions for the taxation of interest income derived by non-publicly offered investment funds from non-publicly offered debt instruments. Furthermore, interest income received by the funds (from credit engagements) is taxed at normal income tax rates (up to 55%). Should such interest income does not exceed 20% of the funds income as a whole, final taxation will be applied at a rate of 27.5%.

AbgÄG 2023

New tax reporting system of Austrian banks

Tax collection in Austria on capital income is primarily undertaken by Austrian banks. The tax collection also comprises netting of income earned by clients (including the netting of capital gains and capital losses) during the calendar year.

The Ministry of Finance is of the opinion that tax reporting for clients has to be more specific. The new law refers to the new tax-reporting system for Austrian banks for domestic taxable persons. The starting date of first reporting should come into effect at the beginning of 2026 for income received in calendar year 2025.

On domestic and foreign investment funds, the banks are required to transform the tax data already published by OeKB into their own client tax reporting systems. Transformed tax data comprises the tax base and the tax rate of the income received. Currently, the Ministry of Finance is drafting technical implementation guidelines.

New system for reclaiming Austrian withholding taxes levied on the distribution of Austrian shares

Following an Austrian High Court decision of 28 June 2022 (Ro 2022/13 0002-5), a reclaim of Austrian withholding taxes according to a certain double tax treaty (DTT) in the connection with a short-term holding of Austrian shares was not accepted. The Austrian Ministry of Finance was forced to react quickly to this.

In September 2022, the Ministry issued an amended information on the reclaim of Austrian withholding tax on dividend distributions by non-resident shareholders. According to this new guidance, only the foreign shareholder holding the shares on his custodian account on the day before the General Assembly deciding on dividend distribution is entitled to reclaim Austrian withholding tax.

This new practice produced deviations from what is documented on the usual tax vouchers, which refer to the record date. The Austrian financial community - including OeKB and Vienna Stock Exchange - opposed this opinion and tried to lobby for amended legislation.

AbgÄG 2023 includes appropriate regulation of the requirements for investors reclaiming Austrian withholding taxes. The claim is valid if the shares are held on the record date of the distribution of company. For short-term transactions around the dividend payment date (short-term holding periods) investors have to provide evidence that the transactions were not predominantly motivated by tax advantages.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In 2023, financial education was given greater emphasis in the national school curricula. Specifically, in January 2023, the long-awaited adapted curricula for financial education in primary and secondary schools were issued for the 2023-24 school year. These cover areas such as savings and risk, as well as prices and competition in the social market economy.

VÖIG is committed to enhancing financial literacy, recognising its role in ensuring stable financial markets and helping individuals manage their finances. Against this backdrop, several online initiatives have been prepared, including financial education quizzes and presentations. These resources - covering topics such as savings, investments and retirement planning - are tailored to the specific needs of different age groups. In addition, VÖIG is also supporting academic and professional training on investment fund-related subjects.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Publications

- *M. Ladler*, Soft Law und Sorgfaltspflichten, 2023, Soft Law und Sorgfaltspflichten Strukturprinzipien im Unternehmens- und Wirtschaftsrecht online bestellen | 978-3-214-02647-9 | MANZ
- Study on the impact of a ban on inducements on Austria (non-published research paper)

Conferences, seminars and webinars

- 'Fit & Proper' seminar for members of management boards, supervisory boards and identified staff of management companies:
  - Basic; a one-day event,
  - Advanced UCITS, a half-day event, held twice times
  - Advanced Real Estate Funds, a half-day event.
- 'Investmentfonds kompakt', a one-day event, held three times in 2023.
- Regulatory Update for members of the board of directors of the association
- Teaching activities at various universities.

BELGIUM COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Belgium (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs (1)	105.3	107.2	132.0	114.9	125.8
Funds domiciled abroad and promoted by national providers	114.3	124.5	143.4	127.0	143.8
Total net assets	219.6	231.7	275.4	241.9	269.6

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

Table 2: Net Sales of Investment Funds in Belgium (EUR million)					
	2019	2020	2021	2022	2023 (2)
Home-domiciled UCITS & AIFs (3)	-1,653.0	4,959.8	9,639.5	1,947.8	4,092.2
Funds domiciled abroad and promoted by national providers	2,040.5	6,416.2	7,141.1	543.5	1,141.9
Total net sales	387.5	11,376.0	16,780.6	2,491.3	5,234.1

(2) 2023 data are estimates

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

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	51.5	54.7	76.3	62.1	72.0
Bond funds	11.4	12.1	12.9	11.2	15.3
Multi-asset funds	78.4	87.4	111.7	98.3	107.6
Money market funds	2.8	3.5	4.2	7.7	2.2
Guaranteed/protected funds	4.1	3.4	2.9	2.3	2.7
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.3	0.5	0.6	0.3	0.3
Total	148.5	161.7	208.5	181.9	200.2
of which ➤ ETFs	1.4	1.2	1.2	1.3	1.4
➤ Funds of funds	62.8	69.6	83.1	79.1	88.1

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	7,935.1	2,590.8	7,486.7	-2,016.8	2,465.1
Bond funds	-464.9	732.9	985.4	285.8	5,452.5
Multi-asset funds	851.8	741.8	7,207.9	3,171.4	-29.3
Money market funds	-9,196.1	918.9	751.3	3,565.7	-4,692.9
Guaranteed/protected funds	-539.3	-755.7	-672.6	-893.9	472.4
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-101.8	-79.8	-53.6	-57.9	304.0
Total	-1,515.4	4,148.9	15,705.1	4,054.2	3,971.9
of which ➤ ETFs	-14.4	34.4	91.4	28.9	27.6
➤ Funds of funds	-1,394.6	1,971.6	5,733.4	3,316.4	1,657.1

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	0.3	0.3	0.5	0.4	0.4
Bond funds	0.01	0.01	0.01	0.004	0.003
Multi-asset funds	2.5	2.1	1.8	1.3	0.8
Money market funds					
Guaranteed/protected funds	1.0	0.04	0.01		
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds	8.9	7.1	0.5	0.4	0.4
Total	12.7	9.6	2.8	2.1	1.6
of which ➤ ETFs					
➤ Funds of funds	2.7	2.8	2.2	1.6	1.1
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	45.6	17.5	44.9	-13.1	12.3
Bond funds	-0.6	0.6	0.6	0.1	1.1
Multi-asset funds	27.0	14.4	154.8	43.9	-3.9
Money market funds					
Guaranteed/protected funds	-127.5	-41.7	-2.1		
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds	73.7	-29.7	-7.8	-9.8	110.9
Total	18.2	-38.9	190.4	21.1	120.4
of which ➤ ETFs					
➤ Funds of funds	-60.2	69.5	191.9	68.5	20.7
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	736	721	670	589	595
Home-domiciled AIFs	76	37	20	19	19
Foreign funds registered for sales ➤ By national promoters ➤ By foreign promoters	4,923	4,955	5,045	5,087	5,170
Fund launches	586	456	414	301	360
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

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

As of year-end 2023, the investment funds commercialised on the Belgian market totalled EUR 269.6 billion (net assets corrected for double counting). Of these net assets of funds distributed in Belgium, 46.7% can be attributed to investment funds under Belgian law, whereas the remaining 53.3% can be accounted for by the investment funds under foreign law.

Over the full year 2023, net assets increased by EUR 27.7 billion (11.5%). This was mainly driven by positive market effects accounting for EUR 22.5 billion as well as net sales of EUR 5.2 billion.

Compared to net outflows during 2012 and 2013, the Belgian investment funds market has witnessed significant net inflows since 2014, led by 2021.

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

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

The Belgian UCITS investment funds industry totalled EUR 200.2 billion at the end of 2023, an increase of EUR 18.2 billion (10.0%) during 2023, mainly driven by positive market effects accounting for EUR 14.2 billion, as well as net sales of EUR 4.0 billion.

- *Funds-of-funds are important amongst Belgian UCITS funds and seemed to have stabilised at around 40-44% of total net assets.*

The Belgian AIF investment funds industry totalled EUR 1.6 billion at the end of 2023, a decrease of EUR 0.5 billion (24.7%) during 2023.

- *The decreasing trend in the number of AIF funds has been ongoing for a few years, and seems to have stabilised at around 20 funds. This trend is being driven by the fact that in the past multiple AIF funds changed their legal investment type to UCITS funds, while almost no new Belgian AIF funds are currently being created.*
- *Until 2020, the AIF fund category classified as 'other funds', and made up the largest fund type amongst the AIF funds. This was due to the fact that this category was mainly made up of AIF pension saving funds. In the meantime, almost all of these have become UCITS funds.*

The number of Belgian investment funds is characterised by a downward trend, while the number of foreign funds registered for sale in Belgium is continuing to grow over time.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

In 2023, Belgium underwent the **five-year assessment** of its financial sector and its regulation under the IMF's Financial Stability Assessment Program (FSAP). The FSMA (Belgian NCA) was closely involved in this exercise, in the framework of its statutory supervisory mandates, and welcomes the IMF's findings. Based on a liquidity stress test, the mission found that the Belgian investment fund sector - where liquidity management tools are widely available - is resilient and able to absorb large shocks. The FSMA conducts this type of test periodically - as recommended by the IMF – in order to quickly identify any structural vulnerabilities in the sector.

In March 2023, the FSMA published a new circular on the **notification procedure** for UCITS of another Member State of the EEA. This provides an overview of the regulatory framework and of the circumstances under which a notification procedure is required. It also explains the procedure to follow when submitting or updating a notification dossier as well as when notifying the termination of marketing and the obligations that apply when units are marketed in Belgium.

In October 2023, the FSMA published a Communication with a series of **FAQs** intended to provide **support to UCITS and their management companies** in implementing the various legal provisions that apply to them. This includes the Law of 3 August 2012 on undertakings for collective investments that fulfil the conditions of Directive 2009/65/EC and undertakings for investment in receivables, as well as the implementing provisions of that law.

The FSMA also published a **new handbook on outsourcing** (FSMA_2023_24) in October. In this – which is intended for management companies of UCITS/AIFs and for portfolio management and investment advice companies - the FSMA sets out the principles for sound management of the outsourcing of any function. The revised text repeals and replaces the CBFA Circular PPB 2004/5 dated 22 June 2004 on sound management practices in outsourcing by credit institutions and investment firms.

6.2. MiFID II

In October 2023, the FSMA adopted the ESMA guidelines on MiFID II **Product Governance** requirements.

As for the ***Retail Investment Strategy***, the Belgian regulator took a neutral stance in public. This is because it was expected that the Belgian EU Presidency (S1 2024) will play an important coordinating role in the negotiations of this file at European level.

In the Belgian asset management industry, the FinDatEx templates are widely used for information exchanges between professional parties.

6.3. CSDR

Regarding the cash penalties requirement under the Settlement Discipline Regime in place since February 2022, there has been no specific feedback nor stance from the Belgian regulator.

Regarding the proposed shortening of the settlement cycle in the U.S, there has been no specific role for BEAMA nor stance from the Belgian asset managers.

6.4. EMIR

On the EMIR RTS, there has been no specific role for BEAMA nor stance from the Belgian asset managers.

6.5. ELTIF

To date, **no ELTIFs** have been created under Belgian law. The situation is not expected to change in the near future. The (limited number of) ELTIFs on offer in the Belgian market are incorporated under foreign law.

6.6. Sustainable finance

Belgium has over 20 year's history in sustainable and responsible investment. BEAMA formulated its first principles for funds with a profile of ethical investing in April 2001.

As of 2013, the Belgian Financial Sector Federation (Febelfin) - of which BEAMA is a founding member - upgraded the BEAMA's sustainability methodology to cover all financial products marketed in the country.

In subsequent years, the methodology was further updated, resulting in the publication of a **quality standard for sustainable financial products** in 2019, under the independent supervision of the Central Labelling Agency (CLA). Products adhering to this standard can obtain the '**Towards Sustainability**' label (for further information: https://www.towardssustainability.be/en).

By the end of 2023, more than 750 products from over 100 different institutions have obtained the 'Towards Sustainability' label, making it one of the most comprehensive sustainability labels in the world.

The label is also mentioned in the European ESG Template (EET) as being **an accepted ESG label.**

By the end of September 2023, almost 73% of the Belgian funds (as weighted by assets) are either SFDR article 8 or article 9 products. In terms of numbers, this is more than 250 Belgian funds.

A similar figure is derived when calculating the funds commercialised on the Belgian market. **Over 75%** of fund assets of commercialised in Belgium are either SFDR article 8 or 9 funds, and the investor has a choice of more than 1,150 sustainable funds.

The 21 pension savings funds on the Belgian market are all SFDR article 8 funds. In other words, each of the 1.8 million third pillar pension funds savers in Belgium are sustainably invested.

During 2023, BEAMA and its members spent significant time on the following sustainability topics:

- Following up the biannual review of the 'Towards Sustainability' quality standard.
- Following up the ESMA guidelines on fund names for ESG- or sustainability-related terms. BEAMA wrote to the Belgian supervisor (FSMA) with some essential sectoral questions on the ESMA guidelines, including the lack of flexibility, the risk of increased market fragmentation (as jurisdiction falls to individual NCAs), the lack of clarity around scope of transition-related terms.
- Following up the ESMA greenwashing consultation.
- SFDR Level 1 Review.
- SFDR RTSs. The main comment from BEAMA and its members was a wish for the SFDR Level 1 Review and the update of the SFDR RTSs to be aligned. This would mean that the SFDR RTSs do not anticipate the SFDR Level 1 Review.
- Following up the Belgian supervisor's interpretation of the EU Taxonomy alignment percentages. At the end of 2023, the FSMA authorised the disclosure of the actual taxonomy alignment percentage in pre-contractual documents, where previously 0% had been the norm.
- Following up the EC ESG Ratings Proposal.

The majority of asset managers in Belgium who fall within the CSRD scope, do their CSRD reporting on a consolidated basis within their financial group.

Finding reliable the **ESG data and ratings** needed for various reports and disclosures is high on the agenda of asset managers in Belgium.

6.7. Stewardship

Regarding stewardship, there has been specific role for BEAMA nor stance from the Belgian asset managers.

6.8. Benchmarks

At the end of 2021, the European Money Markets Institute (EMMI) - an international non-profit association governed by the provisions of the Belgian Code for Companies and Associations - published two critical benchmarks, namely the EONIA and the Euribor - under the supervision of the FSMA. As of January 2022, ESMA has taken supervisory control of EMMI.

In terms of the Benchmark Regulation (BMR), BEAMA passively tracks relevant EFAMA work and keeps its members informed; there is little current enthusiasm around BMR in Belgium.

6.9. Anti-Money Laundering Directive

The FSMA published a newsletter in July 2023 for AMLCOs, in order to inform them of recent developments on AML/CFT and of upcoming events. The FSMA also organised a second edition of the 'AMLCO Days', a seminar intended for the asset management sector, which took place on 17 October 2023.

The FSMA also incorporated the *EBA Guidelines on policies and controls for the effective management of ML/TF risks when providing access to financial services* into its supervisory policy as from 3 November 2023. In particular, it will use them when assessing the adequacy of the risk assessments and of the policies and procedures relating to combating money laundering and terrorist financing drawn up by the entities under the FSMA's supervision. The guidelines concern the general phenomenon of 'de-risking', with the FSMA considering that these as helping to clarify the application of certain provisions of the Law of 18 December 2017 and of the FSMA Regulation of 3 July 2018.

To allow the FSMA to collect relevant information on AML, it published a periodic questionnaire on preventing money laundering and terrorist financing. This is applicable to all entities under its supervision.

6.10. Digital Finance & Cybersecurity

BEAMA and its members are following up on the **DORA** consultation.

In the autumn of 2023, the Belgian supervisor conducted a DORA (Digital Operational Resilience Act) Awareness Study. This was to better understand this issue both in its own right and to help the relevant institutions under its supervision to ascertain their current 'maturity level' in the DORA terms.

Through this high-level survey, the FSMA wishes to make those relevant institutions aware of the major themes where the entry into force of DORA will have an impact. The FSMA further wishes to take examine where the sectors under its supervision stand on this issue.

The preliminary conclusion is that digital operational resilience appears to be a recognised concept among a significant group of entities under FSMA supervision (94% portfolio management and investment advice companies; 88% management companies of UCITS/AIF). Several sectors have already made solid progress with their preparatory work.

6.11. Other regulatory developments

There is no other pertinent information to be shared for the Belgian market.

7. PENSIONS & PEPP

Third pillar pension saving

At the end of 2020, the Belgian Federal Government decided against indexing a number of maximum amounts for tax reduction for the income years 2020-2023.

For 2024 subscriptions, indexation has been reintroduced. There will be two new ceiling amounts on third pillar pension savings for which an annual tax benefit in personal income tax applies:

- The tax reduction amounts to 30% for the deposits amounting to a maximum of EUR 1,020.
- For deposits greater than EUR 1,020 and up to a maximum of EUR 1,310, there is a tax reduction of 25% granted.

PEPP

The Pan-European Personal Pension Product (PEPP) was launched on 22 March 2022, in addition to the statutory pension of the first pillar, the work-related pension of the second pillar and the individual third pillar pension saving products.

Until now, however, there has been no domestic Belgian PEPP launched. This is mainly because the Belgian sector has doubts about the feasibility of a fee cap of 1% in combination with the complexity of setting up an equivalent tax regime for new pension products in both a Belgian and a European context.

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

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

General principle

The sector advocates for all forms of saving and investment offered in Belgium to be treated as close to fiscally equal as is possible, with a focus on the customer's best interest.

Specifically for investment funds, the sector stresses the importance of **a level playing field** for the various types, regardless of their country of origin. This provides investors with freedom of choice of funds to best suit their needs and risk tolerance, without having to consider tax implications.

Tax rates/treatments impacting investors

The Belgian Government's tax reform plans in 2023, as initially proposed by the Minister of Finance, did not materialise. As a result, there was no negative impact on, among others, collective investment schemes under Belgian law focusing on companies namely 'SICAV-RDT/DBI-BEVEK' that are part of the Belgian regime of 'Definitively Taxed Income' and private equity funds.

However, in 2023, the fund sector was not exempted from additional taxes. The newly introduced measure limiting the deductibility of the annual tax on collective investment schemes (CIS) to 80% – and the associated cascade effect of tax-on-tax impacting Belgian UCIs – was increased to 100%, applicable to taxes due from 1 January 2024. This increased the taxation burden for Belgian CIS. The additional accounting and tax processing adds to the administrative burden and costs for Belgian CIS, which damages the level playing field and returns compared with foreign funds.

Double tax treaties

There are no local updates.

VAT regime and practices

There are no local updates.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In an increasingly complex financial world, financial education is essential for individuals. Giving potential investors access to understandable information is crucial to promoting financial literacy and enabling them to make informed choices when managing their savings. Gaining insight into investment concepts and acquiring skills to make thoughtful financial decisions lays the foundation for building a financially healthier and more resilient society. There is a collective effort by educational institutions, government agencies and various sector initiatives to offer financial education programmes for all age groups. BEAMA highly supports these general principles.

In 2023, several financial education projects were launched to improve public understanding of wealth management. BEAMA will publish the Dutch and French versions of the EFAMA brochure on its website, answering nine frequently asked questions on **sustainable investing.**

On the revamped **BEAMA website**, the section dedicated to financial education has been expanded.

In addition to ongoing financial education for the general public, the Belgian sector is also aiming to invest in financial education **for professionals**. For example, within the framework of asset management, there are various training programmes available on investment instruments, including on collective investment schemes, offered by BEAMA.

The Belgian supervisory authority, the Financial Services and Markets Authority (FSMA) has a coordinating role on financial literacy in Belgium and has already launched several projects to promote financial literacy in **schools**. As of 2020, the educational system included financial literacy as an attainment target, meaning that children from first to sixth grade in secondary school receive financial training as part of their main curriculum.
The FSMA also launched the so called 'Wikifin programme', made up of three distinct pillars:

- Wikifin.be for the general public, where consumers can find a treasury of neutral, reliable and practical resources on money-related matters.
- Wikifin School for students, offering a wide range of free material and training courses to support teachers in their financial education efforts.
- Wikifin Lab, the new interactive experience centre for financial education of secondary school students in the FSMA premises in Brussels. Students can experience, on-site, a wide range of financial situations that they may encounter in daily life.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Looking to the period 2024-2026, BEAMA has set out its **strategic vision in a document with the following six core** pillars:

1. Sustainability
2. Tax neutrality
3. Technological developments
4. Asset Management for the future
5. Investment solutions
6. Inclusion

Through these, BEAMA will reach out to all partners to collectively shape the future of asset management in Belgium. It will help address challenges and seize opportunities for a positive impact on the growth and development of prosperity in our society.

- On its website (Dutch/French), BEAMA provides in-depth **statistics** on the asset management industry in Belgium on a quarterly basis.

- During 2023, BEAMA also published two editions of its biannual **newsletter** 'Glance'. This provides an overview of recent developments in the Belgian Asset Management sector, as well as a brief overview of the most relevant topics handled by BEAMA's various working groups. The newsletter also provides an overview of the most relevant regulatory initiatives at both European and local levels.

- BEAMA also organised a **Webinar** for its members in January 2024 entitled 'Exploring Fund Distribution in Europe: Opportunities & Challenges', as well as a **seminar** in April 2024 on 'The 10-year anniversary of the Belgian law transposing the Alternative Investment Fund Managers Directive (AIFMD).

BULGARIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Bulgaria (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	0.8	0.8	1.3	1.3	1.4
Funds domiciled abroad and promoted by national providers	0.5	0.5	0.8	0.7	0.9
Total net assets	1.4	1.3	2.0	2.0	2.3

Table 2: Net Sales of Investment Funds in Bulgaria (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	79.1	23.5	289.5	27.6	36.5
Funds domiciled abroad and promoted by national providers					
Total net sales	79.1	23.5	289.5	27.6	36.5

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	0.2	0.2	0.2	0.2	0.3
Bond funds	0.1	0.1	0.1	0.1	0.03
Multi-asset funds	0.5	0.6	0.9	0.9	0.9
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.001	0.001	0.002	0.002	0.003
Other funds	0.01	0.01	0.01	0.02	0.02
Total	0.8	0.8	1.2	1.2	1.3
of which ➤ ETFs	0.02	0.02	0.01	0.1	0.1
➤ Funds of funds	0.003	0.003	0.003	0.003	0.003

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	18.4	5.7	5.3	0.7	53.2
Bond funds	17.6	-9.0	4.6	-13.7	-4.2
Multi-asset funds	43.2	26.4	239.8	15.7	-15.1
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.2	-0.2	0.6	0.4	-0.03
Other funds	-0.3	0.7	1.4	0.6	2.2
Total	79.1	23.5	251.6	3.9	36.1
of which ➤ ETFs	4.6	-0.3	-3.9	3.2	1.0
➤ Funds of funds	-0.01		-0.1	0.1	-0.01

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds		0.01	0.1	0.1	0.02
Bond funds					
Multi-asset funds	0.01	0.002	0.01	0.04	0.04
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds					0.1
Total	0.01	0.01	0.1	0.1	0.1
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds			33.5		0.1
Bond funds					
Multi-asset funds			4.4	23.7	0.3
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds					
Total			37.9	23.7	0.4
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	122	119	127	132	124
Home-domiciled AIFs	2	2	5	5	7
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

In 2022, the Bulgarian Association of Asset Management Companies (BAAMC) submitted proposals to the Financial Supervision (FSC) to introduce amendments in Ordinance No. 44 on the Requirements Applicable to the Activity of Collective Investment Schemes, Management Companies, National Investment Funds, Alternative Investment Funds and Alternative Investment Funds Managers ('Ordinance No. 44'). BAAMC stated that it was important that the policies and procedures for performing liquidity stress tests (LSTs) of collective investment schemes or CIS (the UCITS types of investment funds in Bulgaria) were not included in the content of the internal risk management rules of the CIS and, accordingly, as an element of the structure of Article 37, para. 1 of Ordinance No. 44. BAAMC maintained that the policies and procedures for carrying out LST were a relatively independent element of the architecture of internal organisational acts of the CIS. It was proposed that they be regulated as an independent document of the CIS, outside of the risk management rules, given their specific nature, periods of execution, strategic direction and use of special methodologies, scenarios and models adapted to the needs of conducting LST. The FSC accepted the BAAMC proposal, and the policy for conducting LST is regulated as an independent and standalone set of rules. Another BAAMC proposal - to not require management companies to file the results of the LST with the regulator - was also accepted.

In April 2023, the FSC proposed another amendment to Ordinance No 44. BAAMC made only one proposal, since the change was mainly aimed at supplementing Art. 132 of Ordinance No. 44 for the purpose of transposing the changes in Directive 2010/43/EU made with Delegated Directive (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU on the sustainability risks and sustainability factors for Undertakings for Collective Investment in Transferable Securities (UCITS). BAAMC's proposal did not relate to the draft amendment but rather to the effective text of Ordinance No. 44. BAAMC suggested a new, redacted version of Art. 59, para. 1 of Ordinance No. 44 regulating the issuance (sale) and redemption of UCITS units by the management company on the basis of a written contract or contract-order under Art. 65, para. 1 with the client. More specifically, BAAMC proposed that the client contract be concluded at the venues/places specified on the website of the management company, not in the prospectuses of the collective investment schemes or CIS (the Bulgarian equivalent of UCITS funds) unless the contract is concluded without the physical presence of the client; for example, electronically. BAAMC supported the proposal with the fact that the places for submitting orders were not essential elements of the prospectuses in the sense of the UCITS Directive. It was therefore possible that the information in the prospectuses on the places for submitting orders was not up-to-date. In order to protect the interests of investors and provide them with reliable and timely information, BAAMC proposed that that information be made available through the website of the relevant MC, and not through the prospectus of the CIS. The FSC amended that provision in Ordinance No. 44 (State Gazette, issue No. 38 of April 28, 2023) alternatively adding the venues listed on the website of the management company to the places specified in the prospectus. Thus, the text of Art. 59, para 1, second sentence was formulated as follows:

> *'Art. 59 (1) The management company concludes the contract, respectively the contract-order according to the first sentence, at the address of management, as well as at the places for submitting orders specified in the prospectus of the collective investment scheme* ***and/or on its [N.B. the MC's] website****, unless the contract, respectively the contract-order, is not concluded electronically or through any other form without the presence of the customer."*

As for AIFs, the legal framework defining the regime of AIFMs is included as integral part of the Law on the Activity of Collective Investment Schemes and of Other Undertakings for Collective Investment (LACISOUCI). There are currently 25 AIFMs registered with the FSC and one AIFM with a full license managing both National Investment Funds (NIFs) and AIFs. Of these, 11 are management companies (10 of them are members of BAAMC) also registered with the FSC as AIFMs, each one of them managing NIFs. These are a specific type of AIF, modelled on UCITS but with a less restrictive regime for portfolio, diversification and concentration eligibility requirements, use of leverage and management structure (they can also be self-governed). Currently, there are only 15 such national investment funds. Two are former closed-end investment companies organised as JSCs; both are former privatisation funds. NIFs are regulated in detail with the inclusion of a special chapter of LACISOUCI and their legal regime makes them eligible for retail investors; they can be offered to the public through public offering of securities (increase of capital or continuous offering of units and shares). NIFs are only marketed within Bulgaria and they cannot be offered on a cross-border basis. The preferential tax regime applicable to UCITS applies to NIFs. However foreign AIFs - if sold in Bulgaria - will not be able to profit from such preferential tax regime, which might prove to be a barrier for their distribution.

It remains to be seen whether the Ministry of Finance and the Financial Supervision Commission will proceed with the idea, launched several years ago, of drafting amendments to the LACISOUCI to allow the public offering of special types of AIFs whose regulatory regime makes them suitable for retail investors. Currently, only NIFs that are a subtype of AIFs can be publicly traded and offered to retail investors.

5.2. MiFID II

There were no notable developments in this erea during 2023.

5.3. CSDR

The settlement cycle applicable in Bulgaria is T+2. This is the official trade and settlement period applied by the Bulgarian Stock Exchange and the Central Depository of Bulgaria. OTC deals can be executed with T+0, T+1 or different settlement periods.

5.4. EMIR

There were no notable developments in this erea during 2023.

5.5. ELTIF

There were no notable developments in this erea during 2023.

5.6. Sustainable finance

There were no notable developments in this area during 2023.

5.7. Stewardship

On 25 January 2024, BAAMC - represented by the Chairperson of the Management Board Dr Natalia Petrova, executive director of the management company "Concord Asset Management" JSC - was elected in its capacity of a legal person as the **Chairperson of the Board of the National Corporate Governance Commission (NCGC)**. The NCGC members also discussed a project to amend and supplement the National Corporate Governance Code. The Bulgarian Stock Exchange JSC (BSE) was elected as a member of the NCGC.

BAAMC's election recognised its contribution - and that of its members to good corporate governance in Bulgaria. The investment funds (CIS, NIFs and AIFs) managed by the members of BAAMC invest predominantly in public companies and issuers traded on regulated markets. The investment business is active in the corporate management and overall activity of the companies in which they invest. Management companies follow obligatory engagement policies, in compliance with the requirements of the legislation, which introduced a commitment for management companies to adhere to proactive conduct towards issuers of securities. This was aimed at ensuring transparency in the relations of investment funds as investors and investee public companies. Transparency is ensured through reporting to the regulator and through disclosure to the public in relation to the participation of management companies and investment funds (including through the fiduciary management of individual portfolios by management companies) in the corporate governance and corporate life in general of investee companies. The engagement policy of the management companies can be considered as an addition to that for exercising voting rights under Ordinance No. 44, because - with the introduction of requirements for establishing and implementing such a policy - the regulation of the participation of management companies in the corporate life of issuers in which they have invested is further upgraded and developed.

BAAMC, as a member and Chairman of the Board of NCGC, has set goals to actively improve corporate governance in Bulgaria. This will help achieve greater transparency in relations with public companies and issuers, better protecting the rights and interests of shareholders and strengthening investor confidence in the capital market.

5.8. Benchmarks

There were no notable developments in this erea during 2023.

5.9. Anti-Money Laundering

There were no notable developments in this erea during 2023.

5.10. Digital Finance & Cybersecurity

There were no notable developments in this erea during 2023.

5.11. Other regulatory developments

New law on the protection of persons submitting signals or publicly disclosing information on violations

On 25 April 2023, a joint meeting of the Legal Committee of BAAMC and lawyers from members of the Bulgarian Association of Licensed Investment Firms (BALIF) was held to discuss the new Law on the Protection of Persons Who File Reports or Publicly Disclose Information on Violations ('Whistleblowers Act' and 'the Law'). At the meeting, it was stated that the Law entered into force on 4 May 2023. It is horizontal, and its scope includes entities from various sectors and industries, including the financial sector (including management companies, regardless of their number of employees, insofar as they carry out activities regulated by MiFID II and the UCITS Directive, which are respectively included in the Annex to Article 3, Paragraphs 1 and 3 of the Law).

At the meeting, it was also stated that it would be necessary to assess to what extent the sectoral rules should be leading, be amended and supplemented, or whether separate rules should/could be drawn up. The requirements of the Law are more general in nature, concerning violations of legal provisions of national and European legislation. It should be assessed whether and to what extent these are covered by the previous special requirements for whistle-blowing by employees (such as under Article 65 of the MiFIA) and according to the AML framework, whether such rules on whistleblowing ('Rules') can be amalgamated with the internal rules of management companies or be incorporated in a separate document that may not be subject to approval by the regulator, if and when amended. The question was raised as to whether such Rules should be submitted to the FSC. It was also deemed important to determine how and to which competent authority notifications should be submitted and how and to what extent the competencies of the Commission for Personal Data Protection (CPDP) and the FSC were related and / or were overlapping. The meeting discussed the possibility of asking the FSC on those issues, which could be combined with a proposal to organise training on the subject.

It was decided to develop model Rules for whistleblowing to be made available to members of BAAMC. The draft Rules were drawn up taking into account the suggestions made by the lawyers of the two associations.
BAAMC and BALIP prepared a joint letter to the FSC (their ref. No. 23-00-33/26.04.2023), in connection with the application of the Act.

The FSC's opinion was requested on whether in the cases where management companies and investment firms developed independent rules for whistleblowing (separate from those under Art. 65 of the MiFIA and Art. 104 of the LACISOUCI) and given the accessory nature of the Rules, it was necessary that management companies and investment firms notify the FSC of the adoption of the Rules. Was it sufficient, as of 4 May 2023, that they only published them on their websites. Given the short timeframe after which the Law would be applicable, the Associations' request sought a timely response from the regulator in order to allow members to take the necessary action. Simultaneously, a message was sent to the members of BAAMC that management companies should publish, on their websites, the Rules by May 4 inclusive (or by 0.00 a.m. on 5 May), and - if necessary to notify the FSC- to do so within seven days of their acceptance (or by 11 May at the latest).

Members were also advised that the FSC should render a response with instructions as to whether the regulator should be informed about those Rules. In the event that the FSC did not respond, the Rules should not be sent to the Commission, as in the past the rules under GDPR were not submitted to it.

On 9 May 2023, a reply from the FSC was received. This said that it was a competent authority for considering reports of violations on to the provision of financial services forwarded by the Commission for Personal Data Protection (CPDP). It was not necessary for the supervised entities to submit the Rules to the FSC and - for more specific instructions on the Rules - it was necessary to refer to the CPDP.

Draft law on the introduction of the euro in republic of bulgaria

BAAMC is part of a working group (WG) with the FSC, charged with the task of drafting a bill for the introduction of the Euro; this should be submitted to Parliament for adoption as a law. At the preliminary stages, once a concept for the law was drawn up and provided to the participants of the WG, BAAMC provided numerous notes and proposals. These drew the attention of the regulator - for the purpose of comparative analysis - to existing pieces of legislation in EU Member States that had already joined the Eurozone (Slovakia, Slovenia, Czechia, Latvia, Lithuania, Cyprus, Estonia) or were in the process of joining (Croatia). Many of the issues solved in the course of the work on the draft bill.

The Ministry of Finance distributed a draft 'Law on the Introduction of the Euro in the Republic of Bulgaria' (LIERB), dated 19 April 2023, with a limited time for notes, comments and proposals. On 22 May 2023, a further version was obtained, with a new text of Art. 20. Following numerous iterations of Art. 20 over the display of dual prices by the supervised by the Central Bank and the FSC entities, the more favourable version decreeing that such dual price indication would be applicable only to the tariffs of such entities for the prices of their services was superseded. The next version of the text imposed on the banking and non-banking financial institutions certain additional obligations such as a new requirement set forth in Art. 20, para 3 for the dual display of monetary values in "the periodic reporting documents" of the financial institutions. The additional provisions of the draft law did not however define what was meant by "the periodic reporting documents" provided to clients. The only document that would have corresponded to a narrower interpretation was possibly the report that MCs managing individual portfolios on a discretionary basis are required to provide, pursuant to Art. 60 of Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as Regards Organisational Requirements and Operating Conditions for Investment Firms and Defined Terms for the Purposes of That Directive (Regulation 2017/565). According to that provision, investment firms (and MCs performing discretionary portfolio management) "which provide the service of portfolio management to clients shall provide each such client with a **periodic statement** in a durable medium of the portfolio management activities carried out on behalf of that client unless such a statement is provided by another person" (with the exclusion of cases under Article 60, Para 3 of Regulation 2017/565).

BAACM members were asked to submit comments and to provide feedback as to whether the new wording was acceptable in view of its scope; that is, whether it only included the clients of the MC when providing non-core services (mainly discretionary portfolio management) or it also covered the investors in the CIS, if the annual and semi-annual financial statements of the CIS were included (which, however, are not 'provided to clients', but are disclosed publicly in fulfilment of an obligation of transparency). BAAMC categorically stated that the requirement for dual price display should not apply to financial statements and reports or to confirmation of transactions that were not periodic but were provided on a transaction-by-transaction basis.

This was reiterated by BAAMC in its comments of 13 March 2024, on the latest version of the draft LIERB provided to the FSC (Art. 21). In addition, BAAMC stated that the requirement for dual display should not apply to the summarised monthly information on issue and redemption prices of CIS units denominated in currencies other than the BGN.

6. PENSIONS & PEPP

There were no notable developments in this erea during 2023.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

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

- **The rate of the corporate income tax applying to commercial companies is 10%** (a flat tax that is among the lowest in Europe).

- **The rate of the personal income tax applying to individuals is also fixed at 10% flat.**

- **Capital gains** from transactions in shares of public companies and traded rights in such shares realised on a regulated Bulgarian stock market are tax exempt. **Capital gains** from transactions in units of collective investment schemes (open-end investment companies and contractual funds that are UCITS, regardless of whether they are traded on a regulated market or their shares or units are sold/redeemed through channels of distribution, including at the offices of the management company) **are also not taxed**. Disposal of financial instruments during a tender offer procedure are not subject to taxation. The same regime is applicable to the NIFs, regardless of their legal form (common funds or investment companies with corporate structure). Income from redemption of their units in case of open-end NIF is tax-exempt, and the liquidation quota or proceeds received by the investor upon winding up of a closed-end NIF - including closed-end national investment companies - are also tax exempt.

- UCITS (Bulgarian as well those registered in EU Member States and offered and sold in Bulgaria through a branch or based on the freedom to provide services) **are not subject to taxation and are exempt from corporate income tax**. The same regime also applies to NIFs (as of March 2023 there are 14 such NIFs, 13 managed by members of BAAMC; one was a former privatisation fund and is now a self-governed closed-end investment company).

- **Dividends are subject to 5% taxation, withheld at source** (UCITS rarely distribute dividends, although - according to their constitutive acts - they may be a distributive type of investment funds, paying dividend to unit holders).

- Dividends and liquidation proceeds, payable by Bulgarian residents to foreign legal entities, are subject to a 5% final withholding tax at source (Art. 200, para 1 with reference to Art. 194 of the Corporate Income Tax Act /CITA/).

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

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

- The rate of the value added tax remained unchanged at 20%. The application of reduced rates of 9% for restaurants and catering services and 0% for bread and flour was extended until 31 December 2023. The deadline has been again extended.

- 0% rate for the supply of bread and flour until 30 June 2024; 9% for restaurant services until 31 December 2024. This also applies to the use of sports facilities and general tourist services until 30 June 2024.The 9% rate will continue to apply on a permanent basis to books, textbooks and periodicals, baby food and diapers.

  In the penal provisions of the VATA (Art. 185), sanctions were increased particularly for the failure of the merchants to issue a receipt to a client. A sanction was also introduced in connection with Art. 123, para. 10 of VATA – failure to declare amounts exceeding BGN 50,000 held in cash registers and in the form of receivables (Art. 192a of the VATA).

Financial services are exempt from VAT.

- The VAT registration threshold, which was increased from BGN 50,000 to **BGN 100,000** as of July 2022, remains the same in 2024. The special measure will apply until 31 December 2024, the date by which EU Member States must transpose Council Directive (EC) 2020/285. **From 1 January 2025, the threshold will be EUR 85,000 or the national currency equivalent (BGN 166,000).**

- **Management fees of MCs for UCITS and NIFs are explicitly exempt from VAT. The same regime was applied to the management of AIFs.**

  The scope of the exemption for financial services was expanded **by adding the management of AIFs defined as special investment funds, according to European law criteria**, so the management of AIFs is VAT-exempt since 1 January 2023.

  In relation with that amendment to the Law on VAT, BAAMC - in a letter to the Chairman of the Budget and Finance Committee of Parliament and the Ministry of Finance dated 12 July 2022 - expressed its support for exempting management of AIFs from VAT. The Association also proposed that the tax treatment of individual portfolio management, also be exempted from VAT.

- Capital gains on corporate bonds are generally tax exempt, despite the Law on the Income Tax of Natural Persons (LITNP) not explicitly providing for this, as is the case of shares of public companies traded on a regulated market and for the redemption of units of collective investment schemes of the UCITS type. On the other hand, income from sale of movable property and chattels is also tax exempt. The LITNP, however explicitly stipulates that interest from bonds, debentures and other debt instruments is tax exempt, interest accrued being one of the forms of generating capital gains.

- For the CITA, interest and capital gains as well as losses from trade in bonds are used to calculate the taxable base, from which profit from the sale of financial instruments is deducted and losses from sale of financial instruments are added as a negative value.

- **Tax Relief for Trade in Financial Instruments on Growth Markets.**

  § 77 of the Transitional and Concluding Provisions of the Law Amending the Law on VAT (promulgated in the State Gazette, issue No. 104 of 2020) provides that **until 31 December 2025**, disposal of financial instruments for the purposes of art. 44 and 196 of the CITA would be tax exempt for transactions in units and shares of collective investment schemes and of national investment funds, shares, rights and government securities, **performed on a growth market** within the meaning of Art. 122, para. 1 of the MiFIA. The SME Growth Market **BEAM** is a special market, organised by the Bulgarian Stock Exchange (BSE) that allows Bulgarian SMEs to obtain financing. The BSE received approval by the Financial Supervision Commission to create the new SME Growth Market **BEAM** at the end of 2018. Trading on BEAM market is executed through the same trading platform XETRA - T7® and under the same trading rules as those on the BSE main market. The main objective of **BEAM** growth market is to provide SMEs with the opportunity to raise funds on easier terms than on the regulated market, while at the same time providing them with similar advantages to those of public companies.

  Also, until 31 December 2025, no withholding tax under Art. 195, para. 6 of the CITA would be levied on:
  1. income from interest on bonds or other debt securities, issued by a local legal entity, the state and the municipalities and admitted or trading on a growth market in the country or in an EU Member State or of another state party to the Agreement on the European Economic Area.
  2. income from interest on a loan provided by a foreign person - issuer of bonds or other debt securities, when the bonds or other debt securities are admitted for trading on a growth market in the country or in an EU Member State or of another state party to the Agreement on the European Economic Area, and meet the conditions of Art. 195, para. 6, item 2, letters ‘a’ and ‘b’ of the CITA.
  For the period of relief, the capital gain realised on **BEAM** from the disposal of shares will not be subject to taxation (for individuals) and foresees a reduction of the financial tax result of legal entities on profits made from the disposal of financial instruments realised on this market.

  The government fee charged for filing annual financial statements, consolidated annual financial statements and annual activity reports with the Registry Agency (the government agency administering the Bulgarian Trade Register and Register of NGOs) was abolished at the start of 2022.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

BAAMC organised an educational campaign to showcase the products and services offered by management companies, as well as the activities of the Association. The main goal was to increase the awareness of investors, to show the available alternatives for investments (other than the traditionally popular in Bulgaria deposits and real estate), to position BAAMC as a reliable source of information and increase confidence in the fund industry.

For the training campaign, criteria were set for the target audience, which included Bulgarian citizens aged 28-55 from medium-sized and large cities, with above-average income, access to technology, little or no investment experience and able to invest if they are informed and have a suitable advisor.

As a result of the work of BAAMC and the members of its marketing and advertising committee, the following results were achieved in 2022-2023:

- BAAMC signed a contract for marketing services with a professional agency in 2022.
- A new BAAMC logo was approved, with a modern look and new colour characteristics, as well as a message addressing current trends in the industry on a local and global level.
- BAAMC's website was revamped, aimed at brand recognition for the Association and providing a clear and up-to-date information on its main activities, goals and principles.
- The main message of the campaign was approved: "See Money in Action".
- A slogan of the campaign was approved: "New Horizons for Personal Finance".
- Banners and campaign key visuals were approved.
- A basic training and informational video clip on the nature and characteristics of mutual funds as a product offered by management companies was created.
- Several shorter videos were created, aimed at attracting a new audience in an easily accessible and interesting way, to enhance trust in investments and the stock market.

  Some of the main topics covered in the course of the 2023 campaign were focused on the transparency of the UCITS regime, the principles of investing, systematic plans, the tax regime of UCITS, NIFs and AIFs, issues related to diversification, liquidity, volatility, market adjustments, risk profiles, investment horizon, subscription and redemption of units, types of risk, geographic focus and geographic risks, discretionary portfolio management et al.
- A landing page was created for the main page of BAUD, which can be later supplemented with information on the products and services offered by the management companies - https://baud.bg/vij-parite-v-deystvie/.
- A BAAMC profile and Facebook page has been created as a digital distribution channel for the campaign - https://bit.ly/42jM5YX.
- A BAAMC LinkedIn profile was established as a digital distribution channel for the campaign - https://www.linkedin.com/company/94861168/admin/.
- A YouTube channel was created to distribute the video content.
- Improved positioning via Google Search and GDN was also achieved.
- A print advertisement in Bulgaria Air's in-flight magazine was created and approved, with distribution during the strong active summer season starting July 2023.
- Content for a series of posts to Facebook and LinkedIn pages was created to build up key information and acquaint the public with potential investment options.
- A posting plan with visuals and texts for distribution of clips in digital channels was also approved.
- A budget was approved for sponsoring the posts and distributing the campaign on a month-by-month basis.

- All texts used in the campaign were approved by BAAMC members, a disclaimer was also created and published in the video clips and on the landing page.

The training and information campaign of the BAAMC started on 1 June 2023, and it is continuing through the first months of 2024 with a view to be maintained on a regular basis in the current financial year. For that purpose, additional budget was voted by BAAMC for financing the campaign until the end of 2024.

On 11 March 2023, the new Course 2023 for brokers and investment consultants - organised by BAAMC and BALIF - began. The previous year's topics were maintained as content, considering the changes in the weights of the topics according to the syllabi published by the Financial Supervision Commission. The course was taught by the same team of lecturers engaged since 2019.

A total of 32 participants were enrolled; of these, 24 participated in the course for investment consultants and the remainder in the course for brokers.

Some of those signing up are employees of members of both associations, enjoying a significant discount on the price of the respective fees. Even greater discounts were provided for former BAAMC and BALIF students, with prices almost two-thirds lower than standard.

The lectures were conducted as a hybrid scheme, with the majority being held in person and the remainder remotely through an internet platform. The students were provided with sets of problems from past mock exams. A significant part of the course was devoted to problem-solving. A special training was provided focused on the use of financial calculators.

On 6 May 2023, a mock examination was held for both groups of course participants. A total of 17 students registered for the mock exams, of which 12 for the investment consultants' exam and the remainder for the broker exam.

On 13-14 May 2023, the official examinations before the FSC were held.

On 19 May 2023, the FSC announced the results of the exams. The vast majority of those passing are our students from the Course 2023 of BAAMC and BALIF. In the brokers exam, 12 from Course 2023 out of a total of 17 candidates are our students. In the exam for investment consultants, out of 10 candidates who passed the exam, nine were from Course 2023 and one from Course 2022 - all of them our students. Out of a total of 27 candidates who passed the exams, 22 were our students. There were also students who sat both exams. A significant proportion of course participants were employees of BAAMC or BALIF members.

As is the tradition, the BSE provided awards and internships for the best-performing BAAMC and BALIF students.

A new course is set to begin on the 16 March 2024. BAAMC and BALIF have hired one further lecturer to make presentations specifically on the valuation of bonds, fixed-income instruments and derivatives. Numerous subscriptions have been made, with 65 students expressing their interest in participating in Course 2024, most of them (51) having chosen to follow the course for investment consultants.

CROATIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	3.6	3.0	3.5	2.8	2.8
Funds domiciled abroad and promoted by national providers					
Total net assets	3.6	3.0	3.5	2.8	2.8

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	271.2	-651.6	398.3	-455.8	78.5
Funds domiciled abroad and promoted by national providers					
Total net sales	271.2	-651.6	398.3	-455.8	78.5

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	0.2	0.2	0.3	0.3	0.4
Bond funds	2.5	1.9	2.0	1.4	0.9
Multi-asset funds	0.1	0.1	0.2	0.1	0.3
Money market funds	0.001				0.02
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.2	0.2	0.3	0.4	0.7
Total	3.0	2.4	2.9	2.2	2.3
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-11.6	-6.6	60.6	-17.9	49.1
Bond funds	330.2	-661.5	149.1	-507.6	-196.3
Multi-asset funds	7.8	-3.3	56.4	-27.1	-42.1
Money market funds	-72.2	-0.2			10.5
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	17.0	20.1	132.2	96.6	257.3
Total	271.2	-651.6	398.3	-455.8	78.5
of which ➤ ETFs					
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds	0.6	0.6	0.7	0.7	0.5
Total	0.6	0.6	0.7	0.7	0.5
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 6: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	99	96	93	100	108
Home-domiciled AIFs	36	39	34	35	43
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters	150	106	334	383	434
Fund launches	10	13	10	20	33
Fund liquidations		2	8	8	4
Fund mergers & acquisitions	5	11	8	1	10

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

There were no notable developments in this area in 2023.

5.2. MiFID II

Currently, the FinDatEx EMT (European MiFID Template) and/or EET (European ESG Template) are used by some distributors and asset managers, but they are not yet a standard means of transferring information.

5.3 CSDR

With the cash penalties requirement under the Settlement Discipline Regime in place since February 2022, there has been no specific analysis into the improvement of settlement fails. Penalties are received at ManCo/custodian/fund level, on case-by-case basis.

Settlement of trades made by funds follow the rules of a specific market. Settlement of issuance/redemption of units/shares in funds are settled within five working days, but in practice virtually all transactions are settled the next working day.

5.4. EMIR

Mainly the banks do the EMIR reporting for funds (by delegated agreements) and we have not encountered problems from their side.

5.5. ELTIF

Currently there are no funds registered as ELTIFs in Croatia.

5.6. Sustainable finance

Currently, there are only Article 8 funds, approved by the local NCA. They are using internal ESG ratings, based on values that they pursue and exclusions based on internal (ESG) criteria.

Supervisory activities:

- Supervision of sustainability-related disclosures in the financial services sector.
- Supervision of suitability of sustainable investments under MiFID.
- Supervision of issuers within the scope prescribed by the Capital Market Act

In Croatia, there are no asset managers that fall under CSRD reporting obligations, due to their small sizes (10-40 employees).

For experiences by asset managers in finding reliable ESG data and ratings needed for reporting and disclosure purposes:

- Funds are either pursuing values that are easier to find, such as CO2 emissions, or are estimating unavailable data within its ESG methodologies.
- Funds are struggling also with the price, methodologies and reliability of providers data.
- Association representatives are part of the working group for support to sustainable financing, coordinated by the Ministry of Finance.
- The share of ‘green’ on the Croatian investment fund market:
  - UCITS: Article 8 39.80%, Article 9 0.33% and 59.87%.
  - AIF: Article 8 0.55%, Article 9 1.08% and the remainder 98.37%.

5.7. Stewardship

There were no notable developments in this area in 2023.

5.8. Benchmarks

The Zagreb Stock Exchange's indices are harmonised with Benchmark Regulation.

5.9. Anti-Money Laundering

During 2023, representatives of all members of the Association attended the annual training on anti-money laundering and terrorist financing, organised by the Croatian Chamber of Economy in cooperation with the supervisory authorities.

The Association cooperated with the NCA through a Q&A and meetings between Association and NCA on unclear topics.

The Law on Restrictive Measures (November 2023.) (i.e. Financial Sanctions) and ordinances were introduced to strengthen the regulatory framework around enforcing financial sanctions.
Ordinance on remote identification and minimal requirements to perform enters in force in February 2024.

5.10. Digital Finance & Cybersecurity

In collaboration with regulators the Croatian National Bank and the Croatian Financial Services Supervisory Agency, there were full-day workshops held on the first package (June 2023) and second package (January 2024) of sub-legislative acts (binding technical standards) under Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector (DORA).

Small and medium-sized AIF managers are not subject to DORA requirements.

5.11. Other regulatory developments

The Association is taking part developing the capital market development strategy process, coordinated by the Ministry of Finance.

6. PENSIONS & PEPP

There were no notable developments in this area in 2023.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Capital gains tax (CGT) increased to 12% (from 10%) due to the abolishing of local tax (up to 18%). The overall impact is almost neutral. CGT is only triggered if units/shares are redeemed within two years of purchase.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The Government of the Republic of Croatia has adopted the second national strategic framework for consumer financial literacy for the period 2021-2026 (The first was for the period 2015-2020). The activities of the association are part of this framework, including participation in the campaign as a part of:

- Global and European Money Week in March (Project 'The More We Know, The Better We Understand' - education for pupils in high schools and students)
- World Savings Day in October (round table, press releases and articles in the media, social media posts)
- World Investor Week in October (round table, statements and articles in the media, social media posts).

As a part of the celebration of World Investment Fund Day on 19 April, the association hosts the annual 'Top Of The Funds' award for the most successful UCITS and the best investment fund management company of the year.

Educational sessions on investment funds for students at faculties in several cities.

Continuation of the workshops on private equity end venture capital funds for SMEs.

9. OTHER ACTIVITIES OF THE ASSOCIATION

The association cooperates with the governmental authorities (Ministry of Finance, Tax Authority, Croatian Financial Services Supervisory Agency, Croatian National Bank and other institutions). It is involved in all activities for developing the legal framework relevant to the fund industry and the capital market, reporting, education and AML (meetings, seminars, working groups). It is also involved in increasing financial literacy, particularly among young people.

CYPRUS COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Cyprus (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	5.2	4.9	7.7	7.4	6.3
Funds domiciled abroad and promoted by national providers					
Total net assets	5.2	4.9	7.7	7.4	6.3

Table 2: Net Sales of Investment Funds in Cyprus (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	441.0	-322.0	2,166.0	-219.0	-1,600.0
Funds domiciled abroad and promoted by national providers					
Total net sales	441.0	-322.0	2,166.0	-219.0	-1,600.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	0.2	0.2	0.3	0.3	0.4
Bond funds	0.1	0.1	0.1	0.1	0.1
Multi-asset funds	0.1	0.1	0.1	0.05	0.04
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	0.4	0.4	0.5	0.5	0.5
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	80.0	52.0	11.0		19.0
Bond funds	45.0	17.0	3.0	-18.0	-9.0
Multi-asset funds	-4.0	4.0	-8.0	-6.0	-9.0
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	121.0	73.0	6.0	-24.0	1.0
of which ➤ ETFs					
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	1.5	1.1	2.1	2.3	1.3
Bond funds	0.1	0.1	0.1	0.1	0.1
Multi-asset funds	0.6	0.5	1.0	0.9	1.0
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	0.5	0.7	0.6	0.6	0.7
Other funds	2.2	2.1	3.4	3.1	2.7
Total	4.9	4.5	7.2	6.9	5.8
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-4.0	-411.0	720.0	-21.0	-1,891.0
Bond funds	-15.0	-17.0	11.0	3.0	-16.0
Multi-asset funds	34.0	-69.0	576.0	-73.0	-10.0
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	27.0	127.0	40.0	-56.0	132.0
Other funds	278.0	-25.0	813.0	-48.0	184.0
Total	320.0	-395.0	2,160.0	-195.0	-1,601.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	28	32	32	31	31
Home-domiciled AIFs	310	367	411	401	420
Foreign funds registered for sales	40	37			
➤ By national promoters	28	26			
➤ By foreign promoters	21	17			
Fund launches	70	104			
Fund liquidations	28	43			
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

National Legislation/CySEC Directives

The UCITSD and the AIFMD have been transposed into national legislation through the UCITS Law (Law 78(I)/2012) and the AIFM Law (Law 56(I)/2013), respectively.

The UCITS Law has not seen any amendments during 2023. The last was Law 154(I)/2022, transposing EU Directive 2021/2261, on the use of KIDs by UCITS management companies. There have been no national level secondary regulatory acts (CySEC Directives) issued during this time.

The AIFM Law has not seen any amendments in 2023, and there have been no national level secondary regulatory acts (CySEC Directives) during this time.

CySEC Circulars for AIFMs and UCITS MC

CySEC has issued the following Circulars relating to the topics above:

- Circular 545 - Publication of CySEC's reviews of compliance with the reporting obligation in accordance with article 9 of Regulation (EU) No 648/2012 on OTC Derivatives, Central Counterparties and Trade Repositories, as amended (EMIR) (published 12 January 2023).

- Circular 548 - Guidance on liquidity risk management (published 10 February 2023).
- Circular 593 - New reporting standards under Regulation (EU) 648/2012 on OTC Derivatives, Central Counterparties and Trade Repositories, as amended (EMIR) (published 03 August 2023).
- Circular 594 - ESMA launches a Common Supervisory Action (CSA) with NCAs on the sustainability-related disclosures and the integration of sustainability risks in the investment fund sector (published 23 August 2023)
- Circular 616 - ESMA Guidelines for reporting under EMIR (ESMA74-362-2281) (published 23 January 2024)

CySEC published Circular 595 on 31 August 2023, informing the public of ESMA's final report on the 2022 CSA on valuation practices. The Report (paragraph 8) stated that:

"following the completion of the CSA exercise, ESMA launched a survey (the "CSA survey") addressed to NCAs in order to assess the impact of the exercise and to take stock on any type of follow-up actions envisaged/taken by NCAs." A footnote clarifies that CySEC did not participate in the survey.

5.2. MiFID II

MiFID II was transposed into national legislation through the enactment of Law 87(I)/2017.

This law was amended in 2023 (by Law 18(I)/2023), transposing the amendments to MiFID II introduced by Regulation (EU) 2022/585 on the DLT pilot regime.

CySEC did not assess the role of these templates in the overall distribution and disclosure processes in Cyprus.

5.3. CSDR

According to the monitoring team at CySEC, the Cypriot CSD has zero settlement fails. More information can be found on the CSE website.

Currently, settlement in Cyprus takes place on a T+2 (for securities). However, most Cyprus investment funds are not traded on an exchange, and as such they do not have a uniform settlement process and timeline for units/shares subscriptions, redemptions and transfers. Said process can vary according to the provisions of the prospectus of each fund, the order processing flow (followed by all involved intermediaries), NAV calculation frequency and execution (issuance / redemption of units along with the related payments).

5.4. EMIR

There were no notable developments in this area in 2023.

5.5. ELTIF

Currently, there are no ELTIFs under CySEC supervision.

5.6. Sustainable finance

CIFA ran a survey of its members, as a CSA on sustainability matters was initiated by CySEC. The results – to allow CySec to further inform its policy making - are yet to be announced.

CySEC has not estimated the number of fund managers that will report under the CSRD.

CIFA ran a survey of its members, as a CSA on sustainability matters was initiated by CySEC. The results – to allow CySec to further inform its policy making - are yet to be announced.

5.7. Stewardship

CySEC has not undertaken any policy-making initiatives aiming at enhancing corporate governance and/or stewardship (voluntary or binding) in 2023.

5.8. Benchmarks

There have been no national regulatory developments on the implementation of the BMR in 2023.

The impact of the revision of the Benchmarks Regulation has not been assessed by CySEC.

5.9. Anti-Money Laundering

The national AML Law was amended in 2023 (with Law 98(I)/2023), to align it with the FATF international standards on money laundering and terrorist financing, as referenced in the Second Progress Report of the Technical Assessment for Cyprus by MONEYVAL (published in November 2022). More specifically, the amendment introduced a new definition of CASPs, as well as certain other provisions.

5.10. Digital Finance & Cybersecurity

No regulatory/supervisory developments were observed during 2023. We note that CySEC has issued Circular 457 in 2021, on outsourcing to cloud services providers.

In 2023, CySEC issued the following relevant Circulars:

- Circular 580 - Guidance on identifying, assessing and understanding terrorist financing risks in the context of cryptoassets activities.
- Circular 571 informing the public that it has adopted the European Banking Authority (EBA) guidelines on ICT and security risk management. Further to this, CySEC also issued Circular 609, clarifying C571.
- Circular 577 - EBA public consultation paper on amendments to its guidelines on money laundering and terrorist financing risk factors, to include cryptoasset service providers.
- Circular 605 - EBA public consultation paper on new guidelines to prevent the abuse of funds and certain cryptoasset transfers, for money laundering and terrorist financing purposes.

We also note that CySEC has issued Circular 457 in 2021, on Outsourcing to Cloud Services Providers.

5.11. Other regulatory developments

CySEC has prepared a proposal for regulating the Fund Administration activity. The draft legislation is currently being discussed by the relevant committee of the House of Representatives. It sets out, among other, authorisation requirements as well as organisational and prudential obligations.

6. PENSIONS & PEPP

CySEC is looking at this issue, and will issue a publication on the topic in the coming months.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

During 2023, there were no specific changes to tax treatments that could impact fund and/or asset management.

On 3 October 2023, the Cypriot Ministry of Finance (MoF) released draft legislation aligned with components of the Pillar Two proposal, entitled 'The Safeguarding of a Global Minimum Level of Taxation of Multinational Enterprise Groups and Large-Scale Domestic Groups in the Union Law of 2023'. The draft legislation, through the application of a series of rules, imposes a minimum effective tax rate of 15% on entities belonging to multinational enterprise groups and on large-scale domestic groups with annual revenue exceeding €750 million. In line with the Directive, Cyprus will transpose the provisions into domestic legislation. The Income Inclusion Rule (IIR) will come into effect for accounting periods beginning on or after 31 December 2023, and the UTPR for accounting periods beginning on or after 31 December 2024. The MoF also incorporated the option to apply a Qualified Domestic Minimum Top-up Tax (QDMTT) in the draft legislation, in line with the Directive, is expected to be effective as of 1 January 2025. This will allow Cyprus to collect the top-up tax itself, instead of a foreign jurisdiction charging top-up taxes elsewhere.

On 17 October 2023, Cyprus signed a treaty for the avoidance of double taxation with Croatia. This was published in the Official Gazette on 27 October 2023 and will enter into force once the necessary legal procedures are completed.

On 6 December 2023, the Cyprus Parliament approved an amendment to the Special Contribution for Defence (SDC) Law. Through this, the SDC rate on passive interest income (defined as interest not accruing to any person from the ordinary carrying on of any business, including any interest not closely connected with the ordinary carrying on of the business) earned by Cyprus tax residents (and Cyprus domiciles in case of individuals) is reduced from 30% to 17% as of 1 January 2024.

On 11 December 2023, Cyprus signed a new treaty for the avoidance of double taxation with France. This was published in the Official Gazette on 22 December 2023 and will enter into force after the necessary legal procedures are completed.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

CySEC is actively promoting financial literacy via various channels - including social media - and via seminars to schools and universities.

The CIFA is once again aiming for a leading role in the collective efforts to promote financial literacy in Cyprus. During 2024, the association plans to organise a series of seminars and trainings in association with the leading Cyprus universities. These seminars will be made available to both students and market participants.

Both the CIFA and the regulatory authority of the Fund Industry, the Cyprus Securities and Exchange Commission, understand the importance of financial literacy in Cyprus. Some of the main targets of the Association's comprehensive strategy are:

- To empower individuals to make informed financial decisions on investments, savings and retirement planning.
- To enhance the ability of investors to understand and navigate the complex financial products and services offered by the fund industry.
- To foster a culture of responsible financial management, reducing the likelihood of financial fraud or mismanagement.
- To assist economic growth by promoting investment in funds and other financial instruments, thereby contributing to capital formation.
- To strengthen the resilience of the financial system by promoting stability and mitigating risks associated with poorly informed investment behaviour.
- To support the development of a skilled workforce within the fund industry, ensuring the availability of competent professionals to serve investors effectively.
- To contribute to overall financial wellbeing and stability in Cyprus, by providing individuals with the knowledge and skills needed to achieve their financial goals and aspirations.

9. OTHER ACTIVITIES OF THE ASSOCIATION

During 2023 - continuing its tradition - the CIFA coordinated and engaged in a number of local and global events. These events sought to delve into the dynamic regulatory changes and escalating competition prevalent within the global asset management sphere. Teaming up with Invest Cyprus, and backed by various global and local entities, it invited esteemed fund managers and experts in fund administration worldwide.

An essential turning point for the Investment Funds Industry in Cyprus was reached with the hosting of the Annual Conference of the International Investment Funds Association (IIFA) in October 2023. This gave Cyprus a significant platform to showcase its prominence and credibility within the global investment community. The conference highlighted both Cyprus' growing influence in the international investment landscape and provided unique opportunities for networking and knowledge exchange among industry professionals from around the world. It highlighted Cyprus' commitment to fostering innovation, transparency and collaboration within the investment funds sector, further reinforcing its position as a key player in the global financial arena.

Other events hosted or supported by the CIFA during 2023 included:

- 6th Cypriot-Italian Business Forum, June 2023
- Joint Seminar with CISI on the 'Importance Of Creating A 'Speak Up' Culture', June 2023
- Cyprus Professional Services Conference in Nicosia, June 2023
- The Economist New York Mediterranean Business Summit, July 2023
- 9th International Fund Summit and Expo, Nicosia October 2023
- Breakfast Round Table in Zurich on 'Cyprus: A Growing EU investment Funds Jurisdiction', with association with the Invest Cyprus and CySec, November 2024
- The Economist 19th Annual Cyprus Summit in Nicosia, November 2023.

CIFA continues to publish various articles, distributed through social media channels and in local and international media. It also publishes a quarterly newsletter, sent to its members and people from the business community, an annual review distributed throughout the investment industry and an annual guide focusing on the country's fund industry trends and developments.

CZECH REPUBLIC COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Czech Republic (EUR billion)

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	14.6	15.2	18.3	21.3	26.8
Funds domiciled abroad and promoted by national providers	8.1	8.2	10.8	10.5	11.6
Total net assets	22.7	23.4	29.0	31.8	38.4

Table 2: Net Sales of Investment Funds in Czech Republic (EUR million)

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	1,500.3	525.5	1,685.3	3,015.3	3,611.1
Funds domiciled abroad and promoted by national providers					
Total net sales	1,500.3	525.5	1,685.3	3,015.3	3,611.1

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	2.1	3.2	4.2	4.1	4.7
Bond funds	4.0	4.1	4.3	7.4	11.8
Multi-asset funds	5.2	6.2	7.7	7.1	7.3
Money market funds	0.6			0.1	0.3
Guaranteed/protected funds	0.03	0.03	0.03	0.03	0.03
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	1.2				
Total	13.1	13.5	16.2	18.8	24.1
of which ➤ ETFs					
➤ Funds of funds	1.2				

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	32.8	133.1	233.4	173.8	46.6
Bond funds	1,162.7	-444.5	51.2	2,735.8	3,301.2
Multi-asset funds	-297.2	559.2	1,147.4	-159.0	111.0
Money market funds	316.1	104.0		81.2	132.2
Guaranteed/protected funds	17.4	8.2	-0.3	34.9	-0.2
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	31.3	16.2			
Total	1,263.0	376.2	1,431.6	2,866.7	3,590.8
of which ➤ ETFs					
➤ Funds of funds	31.3	16.2			

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	1.5	1.7	2.1	2.5	2.6
Other funds					
Total	1.5	1.7	2.1	2.5	2.6
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	237.2	149.3	253.7	148.7	20.2
Other funds					
Total	237.2	149.3	253.7	148.7	20.2
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	175	166	179	197	220
Home-domiciled AIFs	7	11	11	14	18
Foreign funds registered for sales	1,761	1,836	1,934	2,118	2,328
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

Certain minor technical regulatory changes for UCITS funds have been adopted in 2023. However, the complex changes for UCITS and AIFMD will be drafted in 2024.

ESMA's 2022 Common Supervisory Action on valuation practices did trigger any significant changes to the Czech market.

5.2. MiFID II

MiFID II / MiFIR represents the most important piece of the capital market legislation implemented in the Czech Republic. Since its implementation in January 2018, the most significant impact has been seen in the areas of cost transparency and inducements, along with product governance process enhancement. It has also influenced the costs of implementing MiFID II rules, mainly through changes in IT systems deployed by investment services providers.

MiFID II has also a significant impact on fund management companies that are also authorised to provide investment services. According to local law, such management companies have to comply with almost all MiFID II rules for investment firms. This approach could be mitigated by the currently discussed proposal in the Czech Parliament.

There is also an interpretation enforced by the Czech regulator. This applies where a management company distributes units of a fund managed by another management company or where a management company is a delegated manager of assets of a fund primarily managed by another management company. In both circumstances, the management company is providing investment services to another management company and should obtain MiFID II authorisation and also comply with all MiFID II requirements. It is clear that there are different interpretations of these rules by EU regulators. AKAT supports efforts to minimise divergence in the implementation and application of fully harmonised EU laws by promoting a single, harmonised interpretation process at EU level.

Distribution of funds in the Czech Republic is mostly undertaken through the banking system; however, the market share of independent distribution networks continues to grow. Most foreign investment funds (in terms of numbers) are distributed by independent distributors; however, investment funds distributed by banks represent the majority by volume.

In practice, the EMT (European MiFID Template) and EFT (European MiFID Feedback Template) are used by a proportion of foreign investment funds distributed in the Czech Republic. These do not, however, cover all the funds marketed locally.

5.3. CSDR

As the shortening of the settlement cycle has also been discussed in the EU with a negative impact especially on smaller markets such as the Czech Republic. We have prepared a reply to the ESMA call on the shortening of the settlement cycle, describing the risks of such a move from the point of view of a smaller country.

5.4. EMIR

There were no notable developments on this issue in 2023.

5.5. ELTIF

ELTIFs are not an issue in the Czech Republic, as there are none available on the local market. Investors and corporations as well as state authorities instead use the well-tested local solution, the so-called 'Qualified Investors' Funds' (QIFs). These fully address the needs of local investors, including experienced retail ones. There are no specific suggestions for the regulation for the local market. We do not anticipate more ELTIF-based investments from local investors.

5.6. Sustainable finance

Currently, most local market initiatives are linked to the SFDR. However, the topic is being discussed more often and gaining greater attention. Certain market participants, particularly those belonging to the international financial groups, are starting to stress the sustainability issue.

However, due to uncertainty of the SFDR, certain implementation questions are currently being discussed with the local regulator, such as the categories of funds that all under its remit. Market participants would appreciate greater clarity from the EU regulators. Greater clarity was also demanded in our reply to the European Commission's consultation on the implementation of SFDR.

5.7. Stewardship

There have been no major developments in the regulatory and/or self-regulatory corporate governance environment in the Czech Republic.

All local institutions, as well as the Commercial Register, are fully accessible in electronic formats, while legislation on electronic voting is already in place and operating. All corporations are required to make prescribed fillings in the electronic format, as well as allowing direct access to the company resolutions and other information. AKAT members – investment and management companies – are adhering to corporate governance principles for financial institutions and investee companies.

5.8. Benchmarks

There were no notable developments on this issue in 2023.

5.9. Anti-Money Laundering

There is a focus on practical issues following implementation of amended AML rules, such as the client country of origin or the beneficial ownership issues.

5.10. Digital Finance & Cybersecurity

The Ministry of Finance and the Czech National Bank are following the EU legislation on this topic. Several guidance items have been issued by the National Bank, such as on investment instruments issued via the DLT technology and the Prospectus Regulation and on the possibilities for investment funds to invest in crypto assets.

5.11. Other regulatory developments

AKAT is heavily involved in developing the Czech capital market. Most of the activities of the association are focused on new legislation and regulatory actions in this field, the taxation of investment funds and the environment of fund business. Amongst these, there have been various events with regulators to clarify issues arising from the new regulation.

By encouraging the regulatory landscape in the direction of more-developed fund jurisdictions, the Czech Republic aims to attract fund managers seeking EU offices. To this end, it has some unique attractions: Czech credit ratings are the highest among the EU's post-communist members and the banking industry is among the best-capitalised in Europe and the Czech National Bank is a respected and strong regulator.

AKAT cooperates closely with the Czech National Bank on cultivating the market and promoting fund investments and asset management industry. These efforts regularly result in proposals for new legislation and regulatory opinions on diverse issues relevant to the national capital market.

In 2023, along with the introduction of the new investment product in the third pension pillar, the Czech Parliament adopted some other important changes. One of the most important was aligning of the former extensive scope of phone calls recording with the EU approach.

6. PENSIONS & PEPP

In 2023, there were only two individual pension products available with a state support within the third pillar pension pillar; pension funds and private life insurance. As of 2024, a new pension product was introduced within the third pillar; the so-called 'Long-term Investment Account'. This brings a new opportunity for local households to enjoy tax deductibility when investing long-term investment products for retirement.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

In the Czech Republic, the concept of preferential 5% corporate income tax for investment funds is applied (compared to 19% for other corporations). However, it is only granted to funds that are listed on a stock exchange (further specific rules apply), in a form of a mutual fund or invest more than 90 % of assets into eligible instruments as defined by the relevant tax law. On application of the 5% tax rate on foreign funds, certain other conditions must be met, such as the fund income not being attributed to any other person.

Retail investors benefit from an exemption on taxation of revenues upon redemption / sale following a three-year holding period. The current WHT rates on dividends / interest in the Czech Republic is 15%. For residents of a country where no double tax treaty / no agreement on tax information exchange with the Czech Republic is in place, the WHT rate is 35%.

Currently, individual investment funds established in the Czech Republic are treated as a taxable person by the VAT rules. However, the majority of financial activities are VAT-exempt, without entitlement to tax deduction. However, new rules on VAT are currently under discussion at a local level.

The Czech Republic has a significant double tax treaty network, covering more than 80 countries, with others in the course of being negotiated or ratified. Concerning foreign investment funds' access to double tax treaties benefits, these needs to be assessed on an ad hoc basis.

In 2022, the windfall tax proposal has been adopted, impacting the taxation of banks and certain energy companies in 2023.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

AKAT engages with the local media, offering comments on recent or important developments in the investment sector, including the inclusion of women, financial education, pension planning and economic growth. Banks also continued with a successful digital safety campaign in 2023.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Fund regulation and taxation issues, together with financial education, are the most frequent topics of conferences and seminars organised by AKAT. This included the 13th annual Czech and Slovak conference, co-organised by AKAT and the Slovak association SASS, entitled 'Next Steps in Asset Management'.

In addition, AKAT takes part in various conferences and seminars both for financial institutions and institutional investors as well as for retail investors and the general public. It also cooperates with academic institutions on initiatives such as the regular 'Conference Development and Innovations of Financial Products', organised by the University of Economics in Prague.

The goal of further market development saw closer cooperation with the CFA Society Czech Republic to promote - among other goals - financial education in the Czech Republic.

In 2023, AKAT introduced a widely welcomed survey on the motivations and barriers for retail investors.

DENMARK COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Denmark (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	315.6	328.8	367.0	282.4	275.4
Funds domiciled abroad and promoted by national providers					43.69
Total net assets	315.6	328.8	367.0	282.4	319.1

Table 2: Net Sales of Investment Funds in Denmark (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	2,173.8	5,344.9	4,725.0	-32,703.0	-29,002.4
Funds domiciled abroad and promoted by national providers					
Total net sales	2,173.8	5,344.9	4,725.0	-32,703.0	-29,002.4

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	58.9	64.9	84.4	67.3	75.2
Bond funds	61.0	64.3	66.9	56.9	62.6
Multi-asset funds	23.0	27.2	33.5	31.8	33.7
Money market funds	0.03				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	1.2	1.4	1.7	1.4	1.6
Total	144.2	157.8	186.5	157.4	173.1
of which ➤ ETFs					
➤ Funds of funds	9.6	13.4	18.3	20.0	22.4

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	54.4	4,156.1	4,422.3	-79.8	979.1
Bond funds	1,352.1	2,836.9	3,506.5	-1,877.6	2,404.3
Multi-asset funds	2,772.1	3,782.0	3,597.8	523.5	-739.3
Money market funds	0.4	-33.0			
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-15.6	-10.4	42.7	365.1	-22.8
Total	4,163.4	10,731.6	11,569.3	-1,068.8	2,621.3
of which ➤ ETFs					
➤ Funds of funds	1,594.9	2,191.7	3,176.2	1,520.4	549.8

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	74.2	70.2	83.5	48.0	51.1
Bond funds	64.3	63.7	59.3	47.8	22.0
Multi-asset funds	26.2	29.1	27.4	19.3	19.9
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.9	0.6	0.6	0.8	0.7
Real estate funds	0.9	1.4	2.0	2.5	1.7
Other funds	5.0	6.1	7.7	6.7	6.9
Total	171.4	171.0	180.5	125.0	102.3
of which ➤ ETFs					
➤ Funds of funds	23.7	28.0	27.9	20.3	20.6
➤ Institutional funds	155.8	152.5	161.2	112.0	88.9

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-3,099.5	-8,225.7	-178.1	-25,780.5	-2,413.6
Bond funds	2,174.6	265.1	-2,635.2	-4,819.0	-26,853.4
Multi-asset funds	-2,084.5	1,274.0	-4,269.0	-1,146.2	-1,199.3
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-283.3	-367.2			-163.6
Real estate funds	633.2	278.0	342.3	421.1	-542.7
Other funds	669.9	1,389.0	-104.2	-309.5	-451.0
Total	-1,989.6	-5,386.7	-6,844.2	-31,634.2	-31,623.7
of which ➤ ETFs					
➤ Funds of funds	-1,729.0	3,356.2	-4,058.4	-797.9	-1,637.5
➤ Institutional funds	-3,011.5	-3,639.4	-5,259.1	-31,496.0	-30,921.3

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	522	544	553	558	565
Home-domiciled AIFs	369	375	380	358	359
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	75	90	20	34	46
Fund liquidations		29	15	23	60
Fund mergers & acquisitions					
Number of unit holders	580,039	650,615	801,467	847,407	

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

Following and inspection on the Boards' surveillance and evaluation of performance and costs in UCITS, the Danish FSA has published a thematic supervisory report. A series of supervisory orders were issued to the UCITS covered by the inspection. In the thematic report, the Danish FSA has set standards for the governance and framework around the performance and cost surveillance and evaluation reporting to the boards.

5.2. MiFID II

As a part of the ESMA common supervisory action - based on 2022 findings - the Danish FSA published a survey on ex-post cost and charge disclosures in January 2023. The FSA found that the banks surveyed should strengthen their internal processes and controls as well as enhance transparency through better explanations of the cost terminologies and clearer illustrations of the effect of costs on expected returns. Based on this survey, the Danish FSA published a report on best practices in the area and related observations.

In January 2024, the Danish FCA published a theme analysis on the marketing of investment products and services by investment firms. This included advice on procedures and controls as well as high-level guidance on the contents of marketing material.

EMT files are used across the industry to facilitate data flows from manufacturers to distributers on MiFID-related data. EET files are also widely used but not industry wide.

5.3. CSDR

There were a number of difficulties affecting the implementation of the settlement discipline regime in 2022. Our experience in H2 2023 has been that penalties have decreased significantly; however, it is still too early to say whether or not it is a permanent decrease.

We have T+2 settlement cycle and we follow the discussions in EU and UK on a possible shortening of the settlement cycle to T+1.

5.4. EMIR

We are still preparing for this change, and expect to be ready by April 2024. One issue that remains unclear is the ESMA guideline on reporting of FXSWAP since Bloomberg follows US regulation and thus do not deliver a FXSWAP ISIN but rather two FXFWD making reporting difficult and will give a lot breaks.

5.5. ELTIF

There are currently no ELTIFs issued by our members, and the Danish fund market has shown little significant interest.

5.6. Sustainable finance

The Danish FSA published a memorandum on the periodical report on sustainability, in accordance with Art. 11 of the SFDR. It also published a report on products with sustainable investments as their objectives, based on an inspection during the period May/June 2022 - February 2023. In the latter report, the Danish FSA took a harsh approach. For example, it required those products that contribute to fulfilling one or more the UN's Sustainable Development Goals to measure the product's exact contribution to those goals through the use of more relevant indicators.

5.7. Stewardship

There were no notable developments on this issue in 2023.

5.8. Benchmarks

We have only heard moderate concerns voiced by the buy side over the proposals to remove non-significant benchmarks from the scope of the Regulation.

5.9. Anti-Money Laundering

- **The phasing out of the Danish 1000-krone note.**
  The Danish National Bank has, as part of the issuance of a new series of banknotes decided to phase out the Danish 1000-krone note, following the statement of 30 November 2023. This is currently the highest-denomination Danish banknote in circulation, and it will cease to be valid as of 21 May 2025. The decision was made through joint understanding between the Danish Business Ministry and the Danish National Bank. The National Bank has stated that the Bank has "…listened to the concerns and preferences of the police, the financial sector and the retail sector in relation to the 1000 krone note". The phase out decision was taken because the 1000-krone note was not important for citizens paying in cash for payments. Furthermore, the note has been used to a greater extent for various forms of financial crime than was the case with other banknotes.

- **ODIN**
  To battle money laundering and terrorist financing, the Danish Government created the Operational Danish Information and Intelligence network (ODIN) as part of its national strategy for battling money laundering and terror financing. This has been established to strengthen the operational cooperation and coordination between Danish police authorities, tax authorities and other authorities involved addressing these threats.

The cooperation was set up in 2020, but - as of January 2023 - the forum has been extended to include a public private partnership, with three of the largest banks in Denmark taking part. The members convene monthly in order to share multilateral and bilateral information, subjects, trends as well as to coordinate on specific cases. During its preliminary phases, a framework to battle money laundering and terrorist financing was set up by the parties and finally signed in September 2023.

5.10. Digital Finance & Cybersecurity

There were no notable developments on this issue in 2023.

6. PENSIONS & PEPP

There were no notable developments on this issue in 2023.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Danish Tax Agency has published final guidelines implementing the consequences of the CJEU cases, C-231/19, Blackrock and C-58/20, K and C-59/20, DBKAG.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In 2024, Finance Denmark - in collaboration with the Danish Youth Council – instigated the Economic Youth Summit, an event focusing on the economic and social wellbeing of young people. At this, young people debate various topics around personal finance, debt, savings and investment, exploring how these issues impact the general wellbeing of young people.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Every year, our association publishes an analysis of investor behaviour among Danish citizens. The findings can be found here: Investorkulturen i Danmark (finansdanmark.dk).
Every month, we publish monthly statistics on the funds associated with a short story. These can be found here: Nyheder (finansdanmark.dk).

FINLAND COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Finland (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	124.7	132.4	159.0	137.7	149.4
Funds domiciled abroad and promoted by national providers	12.8	16.7	18.3	8.9	
Total net assets	137.5	149.1	177.2	146.6	149.4

Table 2: Net Sales of Investment Funds in Finland (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	524.9	2,830.9	9,580.2	-3,839.0	3,262.8
Funds domiciled abroad and promoted by national providers				-0.9	
Total net sales	524.9	2,830.9	9,580.2	-3,840.0	3,262.8

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	43.4	48.1	61.0	52.0	58.2
Bond funds	45.1	45.2	50.0	41.1	45.9
Multi-asset funds	20.6	22.9	27.9	24.7	26.5
Money market funds	0.2	0.2	0.2	0.2	0.3
Guaranteed/protected funds	0.1	0.1	0.1	0.1	0.1
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.4	0.4	0.4	0.2	
Total	109.9	116.9	139.6	118.2	131.1
of which ➤ ETFs	0.3	0.3	0.5	0.4	0.5
➤ Funds of funds	24.9	27.4	30.7	26.5	28.8

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds	-4,182.4	952.6	1,591.4	72.0	1,059.4
Bond funds	3,116.4	-461.1	4,152.7	-4,765.8	2,109.1
Multi-asset funds	883.5	1,837.5	2,231.5	407.7	182.4
Money market funds	11.1	-12.2	-32.5	29.5	139.0
Guaranteed/protected funds	46.9	37.6	25.0	-8.0	4.3
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-86.6	-29.0	-49.8	-68.5	-20.5
Total	-211.2	2,325.4	7,918.2	-4,333.1	3,473.6
of which ➤ ETFs	0.6	21.6	59.7	-72.3	53.6
➤ Funds of funds	1,186.9	1,594.0	934.0	-151.1	-57.4

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds	2.0	2.2	2.8	2.1	2.0
Bond funds	1.7	1.2	1.2	1.2	0.7
Multi-asset funds	5.0	4.8	5.6	5.0	5.1
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	0.01			9.2	8.1
Other funds	6.2	7.3	9.8	2.1	2.3
Total	14.9	15.5	19.4	19.5	18.3
of which ➤ ETFs					
➤ Funds of funds	1.8	1.6	1.8	1.6	1.2
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds	-378.0	45.6	235.1	-178.7	-65.4
Bond funds	-27.4	-214.1	18.1	-20.5	96.2
Multi-asset funds	-167.8	-107.6	158.3	-102.9	-40.7
Money market funds	-61.3				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	-5.22	-3.8		248.9	-344.8
Other funds	1,375.7	785.4	1,250.5	547.4	143.9
Total	736.1	505.6	1,662.0	494.1	-210.8
of which ➤ ETFs					
➤ Funds of funds	-228.4	-117.6	142.2	-36.0	90.6
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	**2020**	**2021**	**2022**	**2023**
Home-domiciled UCITS	386	397	380	371	380
Home-domiciled AIFs	94	97	104	106	103
Foreign funds registered for sales				569	
➤ By national promoters	64	64	54	42	
➤ By foreign promoters	419	399	385	527	
Fund launches	77	76	73		
Fund liquidations	77	99	26		
Fund mergers & acquisitions	53	35	41	32	

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

No specific national changes to either UCITS or AIFMD legislation were made during 2023.

The Finnish supervisor (FIN-FSA) participated in several ESMA CSAs during 2023. One related to cost and charges. An overall assessment was published in February 2023 (text in Finnish). The findings call for some improvements, but no major issue were detected.

Another (domestic) analysis related to outsourcing of compliance function (text in Finnish). This report includes more critical analysis, particularly in relation to smaller firms.

A third one related to stress tests in open-end real estate funds (text in Finnish), where some room for improvement was expected, although no major breaches were detected.

5.2. MiFID II

There were no major developments in 2023. The FinDatEx EMT (European MiFID Template) and/or EET (European ESG Template) are used widely by market participants, and it is viewed as important.

5.3. CSDR

Levels of settlement fails have not changes significantly. Normally, actions other than penalties are preferred.

5.4. EMIR

Member firms are expected to be prepared for the new EMIR RTS on derivatives trade reporting.

5.5. ELTIF

Members are looking forward to the new ELTIF regime. For ELTIFs targeted at retail investors, there is a need for changes in the tax legislation before the ELTIFs can effectively be launched. Some 'ELTIF-like semi-open retail AIFs are already available, so we also anticipate further investments from retail investors.

5.6. Sustainable finance

There were no notable developments in this area during 2023.

5.7. Stewardship

There were no notable developments in this area during 2023.

5.8. Benchmarks

There were no notable developments in this area during 2023.

5.9. Anti-Money Laundering

FIN-FSA issued a statement on EBA AML guidelines, where they clarified their interpretation of the definition of a management company's customer within the meaning of the AML Act. According to this, management companies' Finnish unit holders fall within the scope of the customer due diligence obligation. This interpretation is stricter than previously, and is likely to cause difficulties for members.

5.10. Digital Finance & Cybersecurity

There were no notable developments in this area during 2023.

6. PENSIONS & PEPP

A new government took office in 2023. Their programme included a statement that the regime for voluntary private pension savings will be revised. The current regime (which include both insurance and securities-based options) is not appealing, due to stringent rules. The review should start in 2024.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There were no notable developments in this area during 2023.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

We have been assisting to increasing financial literacy in Finland. On a general level, we support the idea of a national strategy for financial literacy in line with the proposal issued by the Bank of Finland: https://www.suomenpankki.fi/en/media-and-publications/releases/2021/vision-finns-will-have-the-worlds-best-financial-literacy-by-2030/.

In our own actions, we influence curriculums and study materials through the Ministry of Education and Culture. The aim is to allow schools and educational institutions to equip people with the basic skills in managing their personal finances and risks.

We supply comprehensive schools with learning materials that they can use to teach personal finances. www.Zaldo.fi is a gamified learning environment for comprehensive schools that also includes a national competition. Zaldo is Finland's contribution to European Money Week, an international campaign aimed at improving financial literacy across Europe.

The national Economic Guru competition (https://www.talousguru.net/, in Finnish and Swedish only) is aimed for students in Finnish upper secondary schools. The competition has two elements: the first seeks to draw attention to the importance of economics in schools, while the second gives the floor to young talent at the final event.

'Talous tutuksi' ('Getting to know the economy') is a series of seminars aimed at social studies teachers. They consist of topical talks on the various areas of the economy.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Much of our efforts were focused on the elections, which took place in April 2023. We agreed and published our objectives for the programme of the next government https://www.finanssiala.fi/en/topics/finance-finlands-objectives-for-the-finnish-government-programme/.

One of our key topics was to encourage savings and investment. We propose to make changes to the fund laws in order to improve the competitiveness of Finnish funds in two ways.

Further improvement of the fund unit register (improved nominee registration) and the facilitation of the variable capital model (SICAV). Another topic was to improve the conditions for voluntary pension savings (as described above in point 6).

FRANCE COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	1,966.7	2,088.2	2,267.7	2,110.7	2,276.9
Funds domiciled abroad and promoted by national providers	564.5	710	871.7	824.1	881.8
Total net assets	2,531.2	2,798.2	3,139.4	2,934.8	3,158.7

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	-36,100.0	71,400.0	-8,200.0	-48,509.0	14,400.0
Funds domiciled abroad and promoted by national providers					
Total net sales	-36,100.0	71,400.0	-8,200.0	-48,509.0	14,400.0

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	223.1	230.2	279.3	219.4	232.9
Bond funds	143.4	128.9	141.5	122.7	135.0
Multi-asset funds	157.7	159.9	170.5	138.5	137.5
Money market funds	296.7	371.5	361.3	347.8	402.5
Guaranteed/protected funds	1.9	1.3	1.1	7.7	8.0
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	822.8	891.8	953.7	836.2	915.8
of which ➤ ETFs	36.0	32.8	38.9	34.8	36.8
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-15,500.0	3,100.0	-5,600.0	-14,640.0	-17,568.0
Bond funds	-5,700.0	-15,200.0	9,500.0	-2,900.0	5,050.0
Multi-asset funds	-8,100.0	-7,900.0	200.0	387.0	-10,540.0
Money market funds	10,800.0	76,000.0	-8,700.0	-17,967.0	45,482.0
Guaranteed/protected funds	-800.0	-500.0	-200.0	-447.0	643.0
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	-19,300.0	55,500.0	-4,800.0	-35,567.0	23,067.0
of which ➤ ETFs	-10,667.0	-1,971.0	-1,000.0	3,154.0	-2,980.0
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	106.7	111.6	128.4	115.3	126.0
Bond funds	141.5	160.1	155.7	148.7	156.1
Multi-asset funds	188.2	191.0	202.4	158.4	164.9
Money market funds	16.9	20.9	16.1	11.8	13.6
Guaranteed/protected funds	17.4	15.7	13.5	6.0	7.1
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	178.6	201.6	229.5	232.7	219.8
Other funds	494.7	495.4	568.4	601.5	673.5
Total	1,143.9	1,196.4	1,314.0	1,274.5	1,361.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-6,300.0	400.0	-100.0	-2,120.0	-6,057.0
Bond funds	14,100.0	16,400.0	-1,900.0	793.0	4,459.0
Multi-asset funds	600.0	-3,400.0	5,500.0	-8,172.0	-6,825.0
Money market funds	-22,400.0	4,000.0	-4,000.0	-1,043.0	1,795.0
Guaranteed/protected funds	-2,800.0	-1,500.0	-2,900.0	-2,400.0	-2,039.0
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds					
Total	-16,800.0	15,900.0	-3,400.0	-12,942.0	-8,667.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	3,024	3,012	2,984	3,075	3,092
Home-domiciled AIFs	7,691	7,790	7,931	7,922	7,676
Asset management companies	657	680	708	702	700
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

- Total assets under management in France (mandates and funds) rose by 6.0% year-on-year to over EUR 4,600 billion. In the long run - since the crisis of 2008 - the annualised growth rate of assets under management stands at the high level of 4.2%.

- Net assets managed through discretionary mandates, catering for retail investors who are looking for tailored services - often to develop their personal wealth - as well as institutional investors seeking to partly delegate the management of their financial investments, amount to EUR 1,500 billion.

- Assets managed through foreign funds in France exceed EUR 880 billion, tripling in the past ten years. This trend is being driven by the increasing number of asset management companies, both group subsidiaries and entrepreneurial that are expanding distribution to non-resident clients.

- AUM of French funds have reached EUR 2,279 billion, up 8.0% in 2023. In more granular detail, UCITS AUM amount to EUR 916 billion (up 9.5%) and AIFs (Alternative Investment Funds as defined by the AIFM Directive) to EUR 1,363 billion (up 6.9%).

- AUM of French SFDR funds have reached EUR 1,277 billion in 2023, up 14.3%. Article 8 funds total EUR 1,213 billion (up 16.2%), while Article 9 funds total EUR 64 billion (down 12.5%).

- Net inflows of French money market and bond funds in 2023 were positive (up EUR 56.8 billion). Equity and multi-asset funds face redemptions of EUR 40.9 billion.

- The number of asset management companies (AMCs) has stabilised at 700 SGPs by the end of 2023. The pace of new business creation was slower this year (23 new AMCs, the lowest level on record). At the same time, there has been a trend towards consolidation and mergers between entrepreneurial asset management companies or subsidiaries of financial groups.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

There have been no notable developments in this area during 2023.

6.2. MiFID II

There have been no notable developments in this area during 2023.

6.3. CSDR

There is no particular feedback from our NCA. On our side, we have seen a slight decrease in the level of fails among some asset classes,i.e,in equities -(probably because of partial settlement), and bonds, since the implementation of penalties. However, the cash penalty mechanism has been in effect since February 2022; since then, we have had market events that have prevented us from gaining a clear vision of the impacts of the mechanism on reducing the number of fails.

On the pass-on mechanism, four models have now been defined for allocating the penalties. These models were industry-led and were proposed to our national authority by our members, ahowever, the fourth was invalidated by the AMF. These are:

- The portfolio receives debit and credit penalties. The debits are reimbursed by the ManCo, which will initiate a market claim where necessary.

- The portfolio receives the net amount of the debit and credit penalties. Where the balance is in debit, the ManCo will reimburse the portfolio and reserves the right to initiate a market claim. This model is still strongly challenged by French NCA, who considers that netting should be applied to linked operations, only when they are issued from the same trade.

- Credit penalties are allocated to the portfolio; debit penalties are allocated to the ManCo.

- All penalties (credits and debits) are allocated to the ManCo account; these penalties pass through the ManCo account. This model has been rejected by the French NCA.

6.4. EMIR

A large number of our members have chosen to delegate their reporting obligation. They anticipate challenges in the oversight of this delegation. More generally, we see a significant implementation challenge for the error and omission part. This is notably on the responsibilities of those entities responsible for the reporting (ERR) and reporting-submitting entities (RSE), as well as on when to assess the significance of issues. The process seems overly complicated and requires significant resources. Knowing that the number of fields has increased drastically. We have identified some issues on the FX swaps reporting (should we report one or two leg?) and on the UTI recovery.

6.5. ELTIF

The revision of level 1 of the ELTIF has provided positive momentum, as the new regulation has improved many imperfections in the previous text. We anticipate an interest in ELTIF 2.0 funds from both the industry and the retail investors, but until now, the projects have mainly been placed on hold due to the lack of legal certainty around level 2.

6.6. Sustainable finance

We received a number of questions from members on the correct implementation of L2 measures.

The French AMF also launched a consultation on a CSA exercise on SFDR and a proper CSA on SFDR.

In 2024, four French asset managers will exceed the CSRD thresholds. Please note that two of these may be subject to the 'subsidiary exemption'.

It should also be noted that asset managers whose parent companies (banks, insurance, other) are subject to the CSRD will not be required to publish their own CSRD information, but will need to share such information with their mother company.

6.7. Stewardship

AFG strongly encourages its members to exercise their right to vote. In order to help them create a voting policy on the exercise of voting rights as shareholders of listed companies, AFG updates regularly its Recommendations on corporate governance. The latest version published at the beginning of 2024 is available on AFG's website.

There are no specific obstacles to the exercise of voting rights compared to other European countries.

6.8. Benchmarks

There have been no national developments on indexes in 2023. On the BMR review, we have gathered data from our members showing that non-significant indexes represent around 80% to 100% of those that they use. We therefore see numerous potential impacts of such a huge descoping, most notably on the level of information asset managers receive (including no obligation on the transparency of administrators' methodologies or on the management of conflict of interest). As asset managers rely heavily on such data to respond to their own transparency and disclosure obligations on ESG, today more so than ever. We are extremely surprised that the large systemic administrators that provide a considerable number of indexes - and notably bespoke indexes - have not been captured by the scope of the regulation. We have made a few proposals during Council and EP negotiations, notably introducing a light regime for non-significant benchmarks with basic transparency obligations. We reminded the institutions how important it is to align BMR with SFDR and guidelines on fund naming, in order to provide consistency between the rules that apply in terms of ESG. Last, we proposed to capture large systemic providers by aggregating the indexes of one administrator in order to calculate the threshold for significance. This last proposal was included in one of the EP's compromise amendments but was not retained. We will push for this again during trilogues.

6.9. Anti-Money Laundering

More precise definitions of the functions that must be considered as a politically exposed person have been provided in a decree published in March 2023.

6.10. Digital Finance & Cybersecurity

As part of its **Technological Innovation Committee**, the AFG has begun work on guides on the following two topics:

Digital sustainability: The aim is to provide information on best practice in terms of energy consumption - linked to the use of digital technology - generated by the activities of management companies internally and/or delegated to service providers. The guide will therefore be strongly functional, helping to formalise an approach to digital sustainability, to identify methodologies and measurements of digital-related emissions and to identify levers for action.

Artificial intelligence and ethics: The aim is to provide information on best practice in the use of AI in the activities of asset management companies. AI, particularly generative AI, is a source of opportunities and innovations, but it also poses a number of risks (including operational, governance, intellectual property and reputational) that need to be understood, depending on how it is used. This guide, which is part of the regulatory framework for AI as defined by the European Commission, will present - among other things - a mapping of risks based on practical cases linked to the uses of AI.

Furthermore, the AFG has already published a professional guide regarding the **Tokenisation of Fund Units and Digital Asset management**. This covers the regulatory and operational aspects of the various uses of DLT through the tokenisation of fund units, investments in digital assets and the tokenisation of financial instruments in fund assets. In order to draw up this guide, the AFG brought together players in the asset management ecosystem, depositaries, auditors, lawyers, consultants, blockchain infrastructure players and (of course) asset management companies. The user guide is intended to be educational, simple yet precise.

7. PENSIONS & PEPP

There have been no notable developments in this area during 2023.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Double tax treaties.
France / Denmark: Entry in force on 29 December 2023 of the tax treaty signed between France and Denmark in 2022.

France / Greece: Entry in force on 30 December 2023 of the tax treaty signed between France and Greece in 2022.

VAT regime and practices:
Mandatory e-invoicing and e-reporting has been postponed: All French business (asset management companies included) will need to be able to receive e-invoices from their suppliers from 1st September 2026 (and not 1st July 2024, as initially planned). There is also a mandatory e-reporting of transactional data for all the transactions.

At this stage, the French Tax Administration has orally indicated that unincorporated mutual funds without a SIREN number (unique French business identification) may be excluded from the scope of e-invoicing and subject only to e-reporting. We await written confirmation.

VAT Group: France has chosen to exercise the option of Article 11 of the VAT Directive as of 1 January 2023, and to provide for the establishment of a VAT group where certain requirements are met.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

AFG has participated in the development of a financial investment performance simulator with the Banque de France, in collaboration with other financial services associations (banks and insurance companies).

As previous years, AFG is a member of the Strategic Committee on Financial Education. This is the driving force behind the national strategy for economic, budgetary and financial education under the aegis of the Ministry of the Economy, Finance and Recovery.

As in 2022, the AFG continued its efforts with its ‘Être acteur de mon épargne’ campaign. Launched via social media networks, it aims to raise awareness and engage retail investors - young graduates, young working people, young families, future homeowners and those wishing to anticipate their retirement preparation - through edutainment content.

In collaboration with EFAMA, AFG produced a new educational tool for investors entitled 'Finance durable – Comprendre en 9 questions' (adapted from the English version).

As in 2022, in July 2023, AFG teams took part in financial education workshops for high school students as part of the Universal National Service. Conducted in partnership with the Banque de France, these workshops were in the form of educational games entitled 'Sur la piste de Mathieu'.

In collaboration with the 'Université Mutualiste' of French bank Crédit Mutuel, AFG is developing training that is dedicated to financial education. The aim of this is to teach the importance of compound interest to the regional administrators of the bank.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Diversity and inclusion
For the fourth year running, AFG published its annual survey on gender diversity in the asset management industry.

Since 2021, several best practice guides have been published to support asset management companies in their diversity and inclusion policy whatever their size: 'Acting for gender diversity' and 'Acting for disability inclusion'.

In 2023, the approach was more global. Several transversal thematic sheets on diversity and inclusion were produced. The first volume, focusing on age-related diversity, is already available. The others will be published during 2024.

In addition to this guide, a survey was carried out on the organisational strategies and measures adopted by asset management companies to promote diversity and inclusion.

The results of the surveys and the guide were presented during the 5th edition of the ESG Prospective morning, which took place on 6 October 2023.

Main publications available in English, in 2023

January 2023

Recommendations on Corporate Governance

February 2024
White Paper 'Technological Innovations: Which strategies for Asset managers?' - Executive summary in English – The full White Paper.

March 2023
Annual Overview of the Asset Management Market.

October 2023
Responsible Investment Management in France - SURVEY DATA 2022.

Cybersecurity – DORA (Digital Operational Resilience Act) Practical Guide.
The DORA Regulation (Digital Operational Resilience Act) defines a detailed, comprehensive framework on digital operational resilience for financial entities, and thus applies to asset management companies. The Regulation, which will come into force on 17 January 2025, imposes obligations on financial entities and their digital service providers, who must review their procedures, contracts, mechanisms and tools on a regular basis to ensure information systems security.

December 2023
Sustainable Investing explained in 9 questions - EFAMA & AFG guide

Newsletter Gestion INFO (in French)

- Spring 2023
- Summer 2023
- Fall 2023
- Winter 2023

Manifesto - Europe 2030: Working together to make the vital transitions a success – Manifesto AFG – January 2024.

Conferences, seminars, webinars and podcasts

AFG regularly organises seminars for its members. Below are a few examples of conferences that were open to a wider audience.

02/02/2023 - Launch of the 'Technological innovations' White Paper.

- Video of the full conference
- Meeting with Philippe SETBON, Chairman of AFG
- Meeting with Muriel FAURE, Chairwoman of AFG's Technological Innovations Committee
- Meeting with Olivier TAILLE, Vice-Chairman of AFG's Technological Innovations Commission

Five years after the publication of the first two White Papers on the digital transformation of asset management companies - and in an increasingly competitive environment - asset management companies are transforming themselves. They are evolving their organisations, improving their operational efficiency and investing in human capital. Data lies at the heart of this transformation.
By 2030, the economy will also be financed through crypto-assets and the use of digital technologies, with the customer at the heart of asset management companies strategy.

6/10/2013 - ESG Prospective Morning - 5th edition

Video of the full conference

How can we embody our role as an indispensable ally of the transition and implement the transformations needed to make it a success, both environmentally and socially?

1. *Two round tables to answer these questions:*

   - *Environmental transition: a collective challenge! [What alignments are needed for the players]. Moderated by Marie-Pierre Peillon, President of the Sustainable Finance Commission.*
   - *Age diversity & inclusion: the challenge of employing seniors. Moderated by Annick Masounave, AGEFI journalist.*

2. *Keynote speeches by Philippe Setbon, President of the AFG and Marianne des Roseaux, President of the working group 'Competitiveness through diversity'.*

3. *Analysis of annual surveys:*

   - *AFG 2022 data show continued growth in responsible investment.*
   - *Gender diversity and D&I practices in the asset management industry.*

17/10/2023 - AFG - FAIR Conference "Artificial intelligence for sustainable finance: realities and challenges".

Video of the full conference

Conference organised by the AFG Quantitative Techniques Club, in partnership with the FaIR program of the Institut Louis Bachelier.

In recent years, developments in AI and machine learning have given rise to a new type of ESG data provider, one which collects and analyses large quantities of unstructured data from a variety of sources. These include textual data to measure companies' ESG incidents or check the credibility of companies' commitments, satellite or ground sensor data to measure their carbon emissions and use machine learning techniques to fill in data gaps (for example on scope 3 emissions).

- *How are alternative data and artificial intelligence tools used by asset managers?*
- *What value do they add to the construction of investment strategies?*
- *What are their potential biases and the risks associated with their use?*

01/02/2024 - Towards the 2030s: Empowering EU Financial Autonomy - AFG Conference

Video of the full conference
Conference booklet
Manifesto, released on 1 February 2024: 'Europe 2030: Working together to make the vital transitions a success'; AFG Manifesto

The AFG was pleased to host its annual Brussels conference, which this year focused on 'Towards the 2030s: Empowering EU Financial Autonomy – The Strategic Role of the Asset Management Industry'.

The upcoming 2024 elections will be a pivotal moment in the renewal of European institutions. The mandates of the next European Commission and European Parliament will bring us to the edge of the 2030s, presenting formidable challenges.

Amidst a period of global monetary tightening and instability, the pivotal role of the European Asset Management industry in facilitating the EU's economic funding and transitions will be crucial. It will be key in fostering the EU's innovative capacity, industrial competitiveness and overall sustainable growth.

Three reasons to attend:

- *Assess the formidable challenges next Commission's and European Policymakers will have to face.*
- *Debate on the pivotal role of the European Asset Management industry in facilitating EU's transitions and economic funding, notably for SMEs.*
- *Network with key European policymakers and the C-suites of the European investment and company community.*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GERMANY COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Germany (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	2,357.7	2,511.4	2,789.3	2,468.8	2,653.4
Funds domiciled abroad and promoted by national providers	574.8	595.7	773.5	686.7	718.5
Total net assets	2,932.5	3,107.1	3,562.8	3,155.5	3,371.9

Table 2: Net Sales of Investment Funds in Germany (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	112,415.2	107,045.4	160,036.6	64,089.0	35,284.2
Funds domiciled abroad and promoted by national providers	13,222.5	19,084.4	87,207.3	6,611.9	20,562.2
Total net sales	125,637.7	126,129.7	247,243.9	70,701.0	55,846.4

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	215.3	222.1	287.9	248.1	289.9
Bond funds	67.8	67.3	67.0	53.4	56.1
Multi-asset funds	111.8	117.0	140.2	123.3	128.8
Money market funds	2.1	2.0	2.4	2.6	3.1
Guaranteed/protected funds	0.2	0.2	0.2	0.2	0.2
Absolute Return Innovative Strategies (ARIS) funds	3.1	3.0	3.0	2.6	2.4
Other funds	7.7	6.6	7.1	6.2	6.8
Total	407.9	418.1	507.8	436.4	487.2
of which ➤ ETFs	48.9	51.0	61.3	51.6	59.3
➤ Funds of funds	28.8	28.0	35.6	31.2	33.4

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds	-920.7	5,270.8	14,811.1	6,005.7	8,217.6
Bond funds	-257.7	-275.8	789.1	-6,515.3	798.0
Multi-asset funds	6,465.4	3,056.9	12,384.9	3,062.3	-3,742.1
Money market funds	-382.7	-87.2	423.5	248.4	397.7
Guaranteed/protected funds	7.5	-30.8	42.1	2.3	6.5
Absolute Return Innovative Strategies (ARIS) funds	-68.4	-107.7	-89.2	-87.9	-256.4
Other funds	-360.4	-960.5	116.0	-160.9	400.6
Total	4,483.0	6,865.7	28,477.5	2,554.6	5,821.9
of which ➤ ETFs	-6,939.2	2,988.6	462.1	-890.5	339.3
➤ Funds of funds	-1,930.4	-1,115.5	376.2	424.8	-390.4

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds	120.8	127.0	150.9	124.0	126.0
Bond funds	434.3	484.2	471.3	382.3	410.9
Multi-asset funds	942.0	969.2	1,059.0	981.6	1,036.0
Money market funds	5.8	6.2	5.6	5.3	5.3
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	2.2	2.1	8.7	7.1	7.2
Real estate funds	215.2	236.8	264.1	289.0	293.4
Other funds	229.5	267.7	321.9	243.1	287.4
Total	1,949.8	2,093.2	2,281.5	2,032.4	2,166.2
of which ➤ ETFs					
➤ Funds of funds	102.6	103.3	118.7	115.9	120.3
➤ Institutional funds	1,814.8	1,948.7	2,123.7	1,856.5	2,005.9

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	1,249.2	7,310.6	9,044.3	2,652.2	-9,458.0
Bond funds	8,870.2	26,698.3	8,274.3	12,186.6	6,884.6
Multi-asset funds	40,811.5	14,733.4	46,929.3	60,401.8	-285.3
Money market funds	0.3	756.0	-1,206.4	267.4	-426.7
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-66.2	-158.2	6,614.5	-11.6	-496.6
Real estate funds	20,931.5	18,355.1	21,329.2	16,702.6	6,691.1
Other funds	36,135.7	32,484.5	40,574.0	-30,664.7	26,553.3
Total	107,932.2	100,179.7	131,559.1	61,534.4	29,462.4
of which ➤ ETFs					
➤ Funds of funds	13,797.9	2,931.5	7,927.1	5,676.3	2,295.2
➤ Institutional funds	97,012.5	91,801.1	118,904.5	57,237.7	30,039.4

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	2,329	2,481	2,606	2,762	2,867
Home-domiciled AIFs	4,468	4,656	4,832	4,891	4,853
Foreign funds registered for sales	7,781	8,483	10,214	11,269	11,494
➤ By national promoters	4,555	4,636	4,949	5,841	5,982
➤ By foreign promoters	3,226	3,847	5,265	5,428	5,512
Fund launches	592	642	615	460	424
Fund liquidations	255	250	188	229	287
Fund mergers & acquisitions	77	66	60	107	56

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

BVI is preparing the implementation of the AIFMD review. This will lead to a number of changes to existing legislation, which the industry is discussing with the Ministry of Finance. In particular, loan-originating funds are currently only permitted as closed-end funds in Germany. On the implementation of the FSB's recommendations to address structural vulnerabilities from liquidity mismatch in open-ended funds (such as the bucketing approach), the German legislator will not act in the course of the AIFMD implementation, but will rather wait for future measures at EU level.

We have coordinated practical application issues on AIFMD reporting with BaFin. This was prompted by the findings of the quality campaign on this topic and the latest technical adjustments made by ESMA in its 'Revision 6' IT guidelines; this provides new validation rules that make more fields mandatory or contain stricter rules for improving data quality.

Since April 2023, management companies may only use electronic means to communicate with BaFin. The national regulation originally envisaged this, with communication exclusively via the 'reporting and publication platform' (MVP) being withheld by BaFin, following criticism from the industry. This means that it is obligatory to submit only a limited set of notifications, applications and reports to BaFin via the MVP. All other documents may be submitted on a voluntary basis via the MVP. Alternatively, they may still be submitted to BaFin via encrypted email. Paper-based submissions of notifications, applications or other documents is no longer permitted since April 1, 2023.

A new fund type, the 'open-ended infrastructure fund', was introduced in the German Capital Investment Code, with the first fund launched in 2023.

5.2. MiFID II

BVI has been focusing on the developments around the EU Retail Investment Strategy (RIS). From the perspective of the German fund industry, the proposals for a 'partial' ban on inducements for non-advised distribution services, the quality enhancement test and benchmarking are of particular relevance.

Here, we have strongly advocated against the concept of a ban on inducements (including a partial ban, even 'just' on execution only transactions). A partial ban may be used as a stepping stone to a full inducement ban by means of the review clause envisaged by the European Commission. In addition - and in comparison, to an advisory-based investment - any conflict of interest is virtually non-existent, as no advice is provided. The Commission's proposal does not serve the objective of investor protection, but rather is likely to force distributors to implement a fee-based model or - as a last resort - reduce services for retail clients. BVI has published highly regarded research showing that a ban on inducements in the context of advised sales does not lead to higher returns for private investors in practice; indeed, it even prevents them from participating more in capital markets.

We also criticised the fact that the proposal for a new 'Best-Interest Test' - which is primarily meant to replace the quality enhancement test - focuses exclusively on costs. Ultimately, we oppose the introduction of European cost-oriented benchmarks without any constraints from ESMA. However, as we know that the cheapest products are not automatically the most suitable ones for the respective customer, in this form neither concept will contribute to investor protection.

BVI is maintaining a close dialogue with ECON and Council representatives as well as the Commission throughout the whole legislative procedure.

The European MiFID Template (EMT) is mainly not used directly. The EMT information is transferred into the system of the data provider, WM Datenservice.

5.3. CSDR

The introduction of the CSDR cash penalty regime in February 2022 has not improved the settlement efficiency for the German buy side. Asset managers have to rely on the information obtained by the (fund) custodians to be able to react in cases of settlement failure. The custodians must ensure that all relevant settlement information is sent as quickly as possible to the fund management companies. This will enable them to resolve any discrepancies for unsettled and failing trades where a decision is required by the custodians from the investment managers. According to our observations, the main reasons for settlement fails are missing securities on the sell side, instructions sent too late to the markets or problems with the settlement instructions (SSIs). The introduction of the CSDR cash penalty system has increased the operational burden for the buy side, as they have to monitor every penalty of a failed trade that belongs to investment funds without any additional value for settlement efficiency. Some German asset managers have increased their internal resources for handling and monitoring the cash penalty process only, thus increasing their operational costs without any additional value for settlement efficiency. In addition, some asset managers are now using greater internal resources to cover the cash penalty process than they do for the daily settlement discrepancies.

We support a move to T+1 within the EU in the long term. An appropriate timeframe for all market participants is required to make the technical, operational (such as FX and funding) and regulatory changes based on detailed assessments that allow time for sufficient industry wide testing with clear governance and milestones. The move to T+1 in Europe will promote a cost-effective, efficient, secure and integrated post-trade EU Capital Market Union that will remain competitive, innovative and dynamic on a global level. Other regions, such as the US and Canada, will switch to the T+1 settlement period next year. A globally agreed T+1 settlement cycle will further drive harmonisation in the post-trade settlement regime, thus improving settlement efficiency for all market participants. The introduction of a T+1 settlement cycle should be aligned in the UK and the EU. All asset classes (cash equities, fixed income, ETFs and fund units settled in CSDs) should move to T+1 in parallel. Different implementation dates for different asset classes should be avoided. Furthermore, it is important to consider the experience of market participants with respect to the move of T+1 in the US. A comprehensive assessment across all relevant functions (such as asset managers, transfer agents, fund custodians, CSDs and APs) will be required to identify critical dependencies and potential bottlenecks.

5.4. EMIR

The EMIR Refit aims to improve and simplify the original EMIR reporting introduced in 2014. It introduces changes to the reporting system for derivatives, in order to increase the transparency and monitoring of those markets. One of the most important changes includes the introduction of a uniform format for reports. The Refit Regulation is also intended to improve the quality of the reported data and to clarify the requirements for all market participants. BVI members have implemented the necessary requirements.

5.5. ELTIF

We see significant interest from asset managers in the revised ELTIF, inter alia due to the access to private equity for average retail investors, something the current Alternative Investment Fund (AIF) legislation does not allow. In particular, the consideration of adequate redemption policies, their monitoring and the relevant specifications by the RTS are the main points of discussion and are the key factors for the further development of an ELTIF market. Supported by BVI, the German regulator BaFin held a workshop with market participants to discuss the application of the ELTIF Regulation. In addition, BaFin has published an FAQ on questions related to the launch of ELTIFs in Germany which reflects concerns raised by BVI.

5.6. Sustainable finance

By 1 January 2023, German fund managers had provided standardised pre-contractual ESG annexes to sales prospectuses of their Article 8 and Article 9 funds under SFDR. BVI supported the implementation by coordination of industry guidance and common interpretation of the EU requirements. In the course of 2023, we assisted our members by developing a common understanding of the ESG annexes to annual reports and coordinating approaches to the first detailed PAI statement at the entity level. BaFin has held several ESG roundtables with participants from BVI and the asset management sector to discuss understanding of SFDR requirements as well as practical questions and challenges. In addition, BaFin provided guidance on supervisory expectations for completing the ESG templates for pre-contractual annexes under SFDR, as well as some important clarifications by way of national FAQs on SFDR.

BaFin also conducted market research on the use of ESG ratings and data by fund management companies, the results of which were published in February 2023. In preparation for this, BaFin surveyed 30 German fund managers and six ESG rating providers. The results confirm the trend towards monopolisation in the use of external ESG data; MSCI is used by the majority of management companies as their data provider (84%), followed by ISS ESG (44%), Bloomberg (28%) then Sustainalytics and Solactive (20% each). Of the management companies that use an external ESG data provider, slightly less than 30% use their own rating procedure, whereas 70% also use the rating of external providers. Some 81% of the management companies surveyed consider the costs of the ESG ratings provided to them to be inappropriately high. Based on the results, BaFin is explicitly asking ESG data and rating providers to disclose their methodologies in detail and in an understandable and simple manner, and to respond to queries from their customers within a reasonable timeframe.

In order to help our members with their search for reliable and up-to-date ESG data, BVI supports the creation of Dataland as a collaborative, not-for-profit undertaking providing as a platform for coordinated data requests and data exchanges between companies and financial market participants. During its set-up phase, Dataland will focus on the exchange of data for the purpose of SFDR and EU Taxonomy, the German Supply Chain Act and for evaluating climate transition. We expect added value through closing data gaps - particularly for small and medium-sized enterprises (SMEs) - and reduced costs of ESG data.

CSRD implementation is in an early phase in Germany. An official draft of the implementing act has only recently been published. Only a few German asset managers will be directly subject to CSRD reporting obligations, but many firms will be affected by CSRD reporting at the group level and will need to collect the relevant data. Current understanding of the CSRD reporting requirements is that they do not apply to assets that are pure investments without operational control. The only exception is Scope 3 reporting in terms of GHG emissions.

5.7. Stewardship

In December 2023, the so-called 'Future Financing Act' (Zukunftsfinanzierungsgesetz) entered into force. In anticipation of the EU Listing Act the law (re-)introduces the instrument of multiple-vote shares into the German 'Stock Corporation Act' (Aktiengesetz), particularly to facilitate the listing of small and mid-sized enterprises. Hereafter, multiple-vote share structures are available for all entities regardless of whether or on which market they are listed. However, the practical relevance of multiple-vote shares has to be seen during the pre-IPO stage, since the introduction of such structures requires the consent of all shareholders. Multiple-vote shares may carry up to ten times the ordinary voting right; a higher ratio is not allowed. They expire upon share transfer or a maximum of ten years after the IPO; however, the time-based sunset period may be extended for a period of up to ten years with a majority of 75% of the share capital. The exercise of enhanced voting rights is restricted to the appointment of the annual auditors as well as special auditors.

The German Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz – LkSG) came into force on 1 January 2023. This obliges companies to follow human rights and certain environmental due diligence obligations in their supply chains. The actual obligations depend on the scope of influence, differentiating between a company's own business divisions, direct contractual partners or indirect suppliers. LkSG initially applied to companies with at least 3,000 employees. Since 1 January 2024, companies with at least 1,000 employees are now covered.

The LkSG refers to an exhaustive catalogue of 11 internationally recognised human rights conventions, and includes certain environmental obligations from three international conventions with which companies must comply. In contrast to the draft CSDDD, it applies only to the upstream value chain and does not involve civil liability. Companies can still be subject to administrative sanctions by the German Federal Office for Economic Affairs and Export Control (BAFA), which has also a dedicated English website on the LkSG.

5.8. Benchmarks

There were no notable developments in this area in 2023.

5.9. Anti-Money Laundering

The implementation of EU sanctions against Russia has also affected the fund industry. The EU sanctions are directly applicable in law in Germany once the respective EU legal acts enter into force. This means, for example, that the freezing of assets takes effect immediately by virtue of a regulation, without the need for an additional official order.

5.10. Digital Finance & Cybersecurity

BaFin had already drawn up supervisory requirements for IT in German asset managers (Kapitalverwaltungsaufsichtliche Anforderungen an die IT – KAIT) in 2019, which were the subject to many audits at management companies in 2023.

Following the federal government's passing of the ordinance on crypto fund shares in mid-2022, a BVI member issued the first crypto fund shares for a German UCITS in 2023. Also, in 2023, a 10% cryptoassets quota was introduced in the law for a German retail AIF, the 'Sonstiges Investmentvermögen', on the initiative of BVI.

5.11. Other regulatory developments

BVI has been analysing the potential impact of the Regulation on a framework for Financial Data Access (FIDA) on the German fund industry. In principle, we support the Commission's goal that the customers of financial institutions should be able to have effective control over their financial data and the opportunity to benefit from safe, data-driven innovation in the financial sector. Our main concerns are as follows:

The potential problems addressed by the Commission usually do not apply to the institutional investor market but rather to the retail mass market. We therefore advocate aligning the personal scope of the FIDA Regulation with the purpose of the act by limiting the personal scope to natural persons and SMEs only using retail products or services.

We also criticise the coverage of enhanced data in addition to plain data. The use of enhanced data - and thus the potential use of diverging results of an assessment (conducted by different data holders) - may prevent data users from offering their investors objective, equal and non-discriminatory access to financial products. Last, for the time being, it is unclear how some of the technical concepts - such as schemes - are to be implemented. We therefore also endorse the introduction of better guidance in the FIDA Regulation.

6. PENSIONS & PEPP

In Germany, in the first pillar – the statutory pension system – the government has advanced a comprehensive draft of legislation focused on stabilising the pension level and nurturing a robust 'Generation Capital'. The Generation Capital introduces an equity reserve within the statutory pension system, targeting €200 billion by the mid-2030s and aiming to leverage the long-term potential of capital markets. Initial funding of €12 billion - alongside the transfer of federal assets amounting to €15 billion - sets the stage for this endeavour. The proposal is currently under interdepartmental review with an expected realisation in 2024. For the third pillar – the private pension system – an expert group set up by the federal government (in which BVI participated) submitted a report with recommendations for reform, marking a pivotal change towards a flexible, robust and forward-looking pension system that aligns with global financial trends. The report of the group is strongly welcomed by BVI. It recommends freeing fund pension products from the constraints of guarantees and annuitisation. It further states that funds should be included and promoted in pension-eligible accounts. The report also recommends not to pursue a state fund in the private pension framework, thereby upholding the principles of a market-oriented economy. This is the right decision, as the state's active role as a product provider in the market distorts competition. Draft legislation is expected by mid-2024.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

On 15 December 2023 (and partly on 1 January 2024), the Act on the Financing of Future Investments ('Future Financing Act') came into force. In general, the Future Financing Act is intended to strengthen Germany's attractiveness as a financial centre and at the same time promote digitalisation and climate protection. The package of measures also includes extending the VAT exemption for the management of funds to all AIFs.

Previously, only the management of UCITS and 'comparable' AIFs were exempt from VAT according to section 4 no. 8 letter h of the German Value Added Tax Act (UStG). The criterion of comparability has raised many questions, and led to legal uncertainty as a result. Essentially, only certain venture capital funds from the category of alternative investment funds have been covered by the regulation to date.

As of 1 January 2024, the criterion of comparability has been removed from the German VAT Act. All AIFs, in particular private equity, venture capital and infrastructure funds, now fall within the VAT exemption.

The aim of the regulation is to create a level playing field for fund managers with other financial centres - such as Luxembourg - which have exempted the management of all funds from VAT for years. This will ultimately strengthen Germany's position as a business and financial centre.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

BVI's investor educational initiative 'Hoch im Kurs' provides upper-secondary school students with basic economic knowledge. The aim is to enable young people to decide on financial matters in a well-informed and responsible manner. BVI provides interested schools with teaching materials (a student magazine and teacher's booklet) on economics and capital markets. Another component is the 'Financial Experts in Schools' programme, which enables teachers to have industry experts 'live' in the classroom.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Conferences and seminars

BVI organises high-level conferences in Frankfurt, Berlin and Brussels, notably the BVI Asset Management Conference, the Fund Operations Conference, the Sustainable Finance Conference, the Open Finance Conference and receptions in Brussels and Berlin. The conferences and seminars (from basics to specialised topics) focus on sharing knowledge and on networking.

Podcast

In the 'Nachdenken' podcast (www.bvi.de/presse/podcast), Thomas Richter and his interview partners address current topics. In 2023, the number of podcast followers on Amazon Podcasts, Apple Podcasts, Deezer, Google Podcasts and Spotify rose from 4,400 to 9,200. Among the topics covered were 'Will the ban on commissions be introduced?' (Markus Ferber, European Parliament), 'How do fund costs develop?' (Prof Steffen Kern, ESMA), 'Sustainability regulation – where are we now?' (Magdalena Kuper, BVI) and 'DORA – better protection against cyberattacks!' (Peggy Steffen, BVI).

Cooperation with local newspapers

BVI organises more than 20 events each year with regional newspapers. For two hours, their readers can call experts from the industry to talk about investing with funds. To ensure neutrality, all participants act as 'BVI experts'. Through this, BVI provides basic knowledge to the broader population. The questions are usually very general. In addition to the announcement of the event, the (often full-page) coverage contains a representative sample of the readers' questions and the experts' answers.

Video

BVI regularly publishes videos regarding "Trends on German fund market" (www.bvi.de/presse/videos) with German and English subtitles.

Publications

BVI provides several brochures for the general public. Some examples include:

- Annual report 'BVI 2023. Data. Facts. Perspectives'. In addition to extensive statistical data on the investment industry in Germany, the report offers insights into the association and its political work.
- 'Facts about funds' explains why funds are important for the economy and society and enlightens some of the most common myths around retail funds. An English version is available.
- A compilation of legal texts 'Investment Law' comprising the German Capital Investment Code (Vol. 1), national and EU regulations (Vol.2) and other EU sources of law (Vol. 3).

Surveys

Research in the field of corporate governance assessed the extent to which BVI's Analysis Guidelines for Shareholder Meetings (ALHV) had been observed in general meetings by public limited companies. The study has highlighted the need for further efforts to improve corporate governance by some issuers.

BVI Consumer Protection Efforts: Ombudsman Scheme for Investment Funds

The Ombudsman Scheme for Investment Funds of BVI stands for independent and impartial consumer dispute resolution. It was launched in 2011 and provides for the out-of-court dispute settlement between consumers and providers of German retail investment funds.

The so-called Funds Ombudsman is a vital part of BVI's activities to improve consumer protection and to restore and maintain confidence in the financial markets. Based on the EU Directive on Alternative Dispute Resolution (ADR) and the Regulation on Online Dispute Resolution (ODR), it offers a high standard, easily accessible, efficient, fast and cost-effective dispute resolution procedure for retail investors.

As arbitrators, BVI has appointed two former high-ranking judges in consultation with the German Federal Office of Justice and the Federation of German Consumer Organisations (vzbv). The arbitrators and their staff act independently and are not bound by any instructions from either BVI or the industry. The arbitrator´s office is located in Berlin. The arbitration itself is subject to a special code of procedure, approved by the German Federal Office of Justice. It empowers the arbitrators to impose binding findings on fund providers up to an amount under dispute of EUR 10,000.

Since its foundation, the BVI Ombudsman Scheme has matured to become a respected cornerstone of consumer protection in the area of investments in the capital markets. The Ombudsman Scheme is a member of the Financial Dispute Resolution Network (FIN-NET) of the European Commission and is represented in the International Network of Financial Ombudsman Schemes (INFO).

The Ombudsman Scheme publishes quarterly and annual reports and offers information to consumers and interested parties on its website (www.ombudsstelle-investmentfonds.de).

GREECE COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	8.8	9.7	12.5	13.4	18.5
Funds domiciled abroad and promoted by national providers	1.8	1.9	3	2.8	2.9
Total net assets	10.6	11.6	15.5	16.2	21.4

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	479.5	114.6	1,459.6	632.0	3,297.9
Funds domiciled abroad and promoted by national providers	101	41.6	1033.8	-25.4	-113.4
Total net sales	580.5	156.2	2,493.4	606.6	3,184.5

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	1.4	1.3	1.8	1.8	2.4
Bond funds	2.4	2.4	2.7	2.5	5.8
Multi-asset funds	2.0	2.1	3.1	3.3	3.5
Money market funds	0.3	0.4	0.4	0.4	0.8
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.0003	0.02	0.1	0.3	0.4
Total	6.1	6.2	8.1	8.2	12.9
of which ➤ ETFs	0.02	0.02	0.02	0.02	0.03
➤ Funds of funds	0.5	0.5	1.0	0.9	0.7

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds	97.0	20.4	207.8	-23.0	54.5
Bond funds	518.5	-58.0	335.8	83.1	3,006.7
Multi-asset funds	68.5	103.3	861.9	335.5	-285.9
Money market funds	-193.1	28.9	-3.9	42.1	365.2
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-11.4	20.0	58.0	194.3	157.4
Total	479.5	114.6	1,459.6	632.0	3,297.9
of which ➤ ETFs	3.9	0.7	0.6	0.5	0.6
➤ Funds of funds	-19.4	30.9	438.0	14.0	-218.4

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	2.8	3.5	4.4	5.2	5.6
Other funds					0.03
Total	2.8	3.5	4.4	5.2	5.7
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 6: Number of Funds					
	2019	**2020**	**2021**	**2022**	**2023**
Home-domiciled UCITS	210	221	226	235	279
Home-domiciled AIFs	5	6	7	9	11
Foreign funds registered for sales					
➤ By national promoters	117	122	126	126	123
➤ By foreign promoters					
Fund launches	16	19	13	24	51
Fund liquidations	1		3	1	3
Fund mergers & acquisitions	6	2	6	21	5

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

The Regulator has issued a circular concerning the use of liquidity management tools, while a related change in investment funds law is under process. On the cost of funds, the regulator is issuing an annual update following ESMA's guidelines.

We have received no update from our regulator to date as to their findings following ESMA's 2022 Common Supervisory Action on valuation practices.

5.2. MiFID II

There are no new national specificities in 2023 in relation to MiFID.

The FinDatEx EMT (European MiFID Template) and / or EET (European ESG Template) play an important role in the overall distribution and disclosure processes in Greece. These templates have codified important information and acted as a catalyst for the distribution of the funds.

5.3. CSDR

In Greece, we only have one Central Securities Depository at the Athens Stock Exchange, the ATHEXCSD. This calculates and applies cash penalties for each settlement instruction that fails to settle and informs the participants. To the best of our knowledge, participants are passing the information to the account holder of the safekeeping account involved in the failed settlement instructions. There is a single model for passing through the penalties (credits/ debits) from ATHEXCSD to the ATHEXCSD participants (custodians) but the way ATHEXCSD participants are passing the penalties to Manco and perhaps individual funds may vary. It seems that they mostly pass the information to the individual funds.

Greece is operating in T+2. ATHEXClear, a subsidiary of the ATHEXGroup, undertakes the clearing of transactions in the securities market of the Athens Exchange as a Central Counterparty. The counterparties of ATHEXClear in the clearing process are the clearing members of the aforesaid Market. The clearing of transactions uses a two-day cycle following the trading day (T+2) and is carried out by ATHEXClear at clearing account level. Each clearing member keeps at least one clients clearing account and one of its own clearing accounts in the clearing system.

Clearing involves the following procedures, which are completed within the period from T to T+2:

- Notification from the market operator of transactions to be cleared to ATHEXClear.
- Correction of clearing account codes (by market members).
- Finalisation and consolidation of trades by ATHEXClear (to reduce the number of transactions for clearing).
- Announcement by ATHEXClear of clearing results to clearing members following the end of the trading session, on the same day.
- Transaction shaping procedure by clearing members.

On T+2, ATHEXClear sends a file of settlement instructions to ATHEXCSD, so that the latter may carry out the cash settlement of transactions as well as all kinds of transfers and relevant entries in the DSS in accordance with the AthexCSD Rulebook. Clearing members / participants participate in this process.

All clearing procedures are described in detail in the Clearing and Settlement Rulebooks and in Resolution 11 of the Board of Directors of ATHEXClear.

So far, there have been no discussions on shortening the settlement cycle. This will require increased operational efficiency by market participants in order to adapt their current post-trade processes, including potentially phasing out manual interventions. A decision to shorten the cycle in the EU needs to be based on a proper assessment of the costs and benefits that such a change would bring to all users of financial markets in the EU.

5.4. EMIR

The new EMIR RTS on derivatives trade reporting, which come into force in April 2024, significantly increases the complexity of derivatives reporting, in terms of aspects such as format, content and information sharing with NFCs. Our industry is assessing all respective challenges (including technical and procedural), in order to be ready to comply with the new regulatory framework from April 2024 onwards.

5.5. ELTIF

There have been no changes in investment level from retail investors into ELTIFs so far. For ELTIF products in Greece to be effective, changes are required at various levels of national legislation. These include the removal of minimum investment amounts - allowing participation of retail investors - the possibility for intermediary redemptions of units and the taxation.

5.6. Sustainable finance

On the Level 2 implementation of SFDR from market participants and the supervisory approach taken by the Hellenic Capital Market Commission, our regulators have adopted a proactive approach in line with other NCAs. They are engaging directly with market participants to guide them through the implementation process.

Asset managers face the task of navigating complex requirements, collecting robust data and ensuring timely and accurate CSRD reporting in order to meet sustainability goals and regulatory obligations.

Asset managers rely heavily on information from third-party providers of ESG data, research and ratings. The lack of transparency in data sources, methodologies and quality creates uncertainty, so there is a quest for reliable information to drive sustainable investment decisions while balancing transparency, regulatory compliance and the complexities of EGD data.

5.7. Stewardship

There have been no new developments in 2023 in corporate governance legislation.

National Climate Law 4936/2022 entered into force in 2023, in order to create a framework for improving adaptation to climate change and ensuring climate neutrality by 2050. Some of our members have reporting requirements that include sustainability, use of resources and so forth.

HE.F.A.M.A. is an active participant to the Hellenic Corporate Governance Council (HCGC) and represented on its management board and is together with the Athens Stock Exchange, the Hellenic Federation of Enterprises, the Hellenic Banking Association and the Hellenic Growthfund. https://www.athexgroup.gr/web/guest/esed.

A Corporate Governance Code for non-listed companies is expected to be issued in 2024.

5.8. Benchmarks

There have been no new regulatory developments in 2023 at national level on implementing the Benchmarks Regulation (BMR).

5.9. Anti-Money Laundering

The AML Directive and Regulation are being continuously implemented without creating problems for the asset management sector. National legislation is constantly updated to include the latest directives as well as FATF international standards.

5.10. Digital Finance & Cybersecurity

An implementing national law was finalised in 2023 for the Digital Ledger Technology Regulation, as changes in varied domestic legislation are required.

An implementing text in national law is expected for DORA and its level 2 acts, because changes in varied domestic legislation will also be required. Aside from the much-anticipated EU AI Act, which is expected to enter into force in the following months, the European Parliament and the Council adopted, in May 2023, the Regulation on markets in cryptoassets (MICA). This amended Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/193 as well as the Regulation on information accompanying transfers of funds and certain crypto-assets and amending Directive (EU) 2015/849 (recast).

6. PENSIONS & PEPP

N**ew legislation for IORP pension funds**, Law 5078/2023, was voted for by Parliament in December 2023. This introduced significant reforms to the existing legislative framework regulating Greek IORPs (TEA), amending their tax framework as well as that of group insurance plans. The main provisions of the new law are:

The **regulatory framework** for establishing and operating supervision over IORPs has been upgraded, with the transfer of all relevant responsibilities to the Bank of Greece as of 1 January 2025 and the abolition of the current tripartite supervision system (Ministry of Labour and Social Security, National Actuarial Authority and Capital Market Commission). The new law simplifies the conditions for the establishment of IORPs and I fully implements the provisions of the IORP Dorective. The key changes introduced are the use of model articles of association (AoA) - set by the Bank of Greece - the possibility for establishing multi-employer IORPs without requiring sectoral / professional affiliation between them, the need to submit a detailed programme of activities for assessing the financial sustainability and solvency of the IORPs.

The **minimum conditions** for receiving **pension benefits** from IORPs have been changed per age brackets and time-period of participation to an IORP. There is an option for voluntarily exit from IORPs, subject to minimum enrolment to receive any pension benefit.

A new **tax framework** has been introduced, amending the existing framework of the collective pension saving products. This is aimed at avoiding distortions in competition arising from the existence of different tax treatments of existing IORPs and group insurance pension plans.

Last, a **maximum amount for contributions** paid to collective pension schemes has been introduced. Contributions made by both the employee and the employer for the employee's participation in group pension plans. For employees, these may not exceed 20% of their gross employment income including bonuses; for the self-employed the limit is EUR 20,000, adjusted each year according to the consumer price index as of 31 December.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

No new tax rules were introduced in Greece in 2023 that impacted fund and / or asset management.

On the VAT regime and practices, a clarification was issued over any revenues arising from contracts for differences (CFDs). These should be treated as subject to VAT (24%), while revenues from derivatives should be treated as VAT exempt only to the extent that these derivatives are traded in a stock market.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The promotion of financial literacy, which our association has been supporting, has been pinpointed as a priority by the public authorities. There have been discussions at government level for initiatives to develop a national financial education strategy. Our association has committed to action through MoUs with major education institutions. Together with other private bodies of the economic and finance sector – and with the support of specialised academics - our association will focus further on initiating the discussion for including financial education within the school curriculum (high school).

Furthermore, the government - in cooperation with the OECD - has launched a National Financial Literacy Strategy for Greece. This is the result of the cooperation between the OECD (as the support provider) and the General Secretariat of Financial Sector and Private Debt Management in the Hellenic Ministry of Economy and Finance, which requested support from the European Commission under the Technical Support Instrument (TSI) Programme. The OECD is the implementing partner of the project.

The National Financial Literacy Strategy for Greece:
https://www.oecd.org/financial/education/financial-literacy-in-greece.htm will provide guidance to stakeholders involved in financial education in Greece over the five years following its adoption. The proposal for a national strategy was developed through a consultative, evidence-based approach and was designed in line with the OECD Recommendation on Financial Literacy.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Provider of funds data information through our fund database:

- **Interactive daily updated fund database** on our association website for Greek UCITS, cross-border UCITS managed by Greek asset managers, AIFs data and REICS data. (http://www.ethe.org.gr/index.php?view=main_v1&option=com_statistic&lang=en&Itemid=0)
- **Daily data of foreign UCITS marketed in Greece.** (http://www.ethe.org.gr/index.php?view=foreignmf&newmenu=Y&type0=ForeignFunds&option=com_statistic&lang=en)
- **Daily data of unit linked funds marketed in Greece.** (http://www.ethe.org.gr/index.php?view=foreignmf&newmenu=Y&type0=UnitLinked&option=com_statistic&lang=en)

Organisation of presentations of companies listed on the Athens Stock Exchange for asset managers and market analysts.

Webinars for our members on current regulatory topics.

Publication of quarterly statistical reports for investment funds (UCITS and AIFs), portfolio investment companies, asset management and real estate investment companies.

HUNGARY COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Hungary (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	19.6	19.0	21.3	23.2	36.6
Funds domiciled abroad and promoted by national providers					
Total net assets	19.6	19.0	21.3	23.2	36.6

Table 2: Net Sales of Investment Funds in Hungary (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	-429.6	596.8	2,006.8	3,037.5	8,817.6
Funds domiciled abroad and promoted by national providers					
Total net sales	-429.6	596.8	2,006.8	3,037.5	8,817.6

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	0.2	0.3	0.4	0.3	0.4
Bond funds	0.4	0.4	0.4	0.3	0.4
Multi-asset funds	0.3	0.3	0.4	0.4	0.4
Money market funds			0.02	0.03	0.04
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.3	0.3	0.2	0.2	0.3
Other funds	0.1	0.1	0.1		
Total	1.3	1.3	1.5	1.3	1.6
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)

	2019	2020	2021	2022	2023
Equity funds	-1.7	44.0	52.8	-28.2	-25.9
Bond funds	-21.2	11.7	-20.3	-66.8	68.5
Multi-asset funds	12.3	5.8	48.5	-39.2	-28.4
Money market funds			-0.1	8.3	5.5
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-115.9	-54.0	-6.0	-36.9	-3.1
Other funds	-23.6	-15.9	-1.7	-7.0	
Total	-150.1	-8.3	73.2	-169.8	16.6
of which ➤ ETFs					
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)

	2019	2020	2021	2022	2023
Equity funds	1.4	1.6	2.3	1.7	2.1
Bond funds	4.0	3.8	4.0	6.3	13.4
Multi-asset funds	3.4	3.5	4.6	3.9	4.3
Money market funds	0.2	0.1	0.1	0.8	1.4
Guaranteed/protected funds	0.3	0.2	0.4	0.6	2.4
Absolute Return Innovative Strategies (ARIS) funds	2.8	2.3	2.4	2.3	3.5
Real estate funds	5.4	5.3	5.4	5.6	7.1
Other funds	0.7	0.7	0.7	0.7	0.8
Total	18.3	17.6	19.7	22.0	35.1
of which ➤ ETFs	0.01	0.01	0.01	0.01	0.01
➤ Funds of funds	4.2	4.4	5.8	5.3	6.3
➤ Institutional funds	1.8	1.8	2.3	2.7	3.8

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	5.3	267.9	426.1	-151.2	59.4
Bond funds	1,453.0	131.3	280.8	2,517.5	5,492.7
Multi-asset funds	484.8	255.2	956.7	-107.8	-243.7
Money market funds	-1,633.4	-64.5	-67.2	738.8	472.5
Guaranteed/protected funds	11.6	-135.1	185.3	229.5	1,649.9
Absolute Return Innovative Strategies (ARIS) funds	-470.9	-56.1	224.6	-66.8	667.0
Real estate funds	177.3	214.4	35.5	96.3	657.9
Other funds	-307.1	-8.0	-108.1	-49.1	45.3
Total	-279.5	605.1	1,933.7	3,207.3	8,801.0
of which ➤ ETFs		0.8	0.3	1.1	-0.3
➤ Funds of funds	36.8	364.9	1,260.3	75.2	61.6
➤ Institutional funds	512.6	72.3	451.7	422.5	755.1

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	29	34	34	34	38
Home-domiciled AIFs	526	521	525	534	521
Foreign funds registered for sales	4,065	4,030	4,215	4,496	
➤ By national promoters					
➤ By foreign promoters	4,065	4,030	4,215	4,496	
Fund launches	42	41	48	43	33
Fund liquidations	48	35	37	25	24
Fund mergers & acquisitions	10	6	5	7	18

5. MARKET DEVELOPMENTS IN 2023

During 2023, the assets of mutual funds increased by 50.8% in HUF, equivalent to 57.7% in EUR. The rearrangement within the fund types is much more apparent. In proportion, the two extremes are guaranteed funds and derivative funds. While the former showed an increase of 1213% during a year in asset, the latter showed a decrease of 1.7%. (The data are calculated in HUF.)

Although the category of bond funds was only the third-largest category in early 2022, it has become the category with the greatest assets since August 2022. This is primarily due to the capital inflow that started in May 2022 and became increasingly dynamic since. The net asset value of bond funds increased by exactly 100% in 2023 (in terms of HUF).

It is also worth noting that the inflation rate in Hungary increased by 17.6% during the year 2023.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

There have been no notable developments in this issue during 2023.

6.2. MiFID II

FinDatEx templates are widely used by distributors.

6.3. CSDR

According to common practice, the penalty is paid by the party responsible for the failure (custodian or ManCo). If the third party is responsible, the penalty received is transferred to the fund.

T+2 is the current common settlement practice in the country. Custodian banks and ManCos are preparing for T+1, and no significant problems have been reported to date.

6.4. EMIR

The reporting is usually undertaken by investment companies as part of their service, we have not received any signal of possible difficulties from ManCos.

6.5. ELTIF

Although private equity funds have considerable market share of the fund business in Hungary, these typically serve the needs of domestic investors and have remained under the ‘domestic’ regulation. As a result, there has been no need for ELTIFs until now. More-flexible distribution opportunities would definitely enhance the popularity of the product, particularly for institutional investors, but we do not envisage considerable demand from the retail segment.

6.6. Sustainable finance

No HU asset managers will now have to report under the Corporate Sustainability Reporting Directive (CSRD).

Finding reliable ESG data and ratings needed for reporting and disclosure purposes is the most pressing issue that is directly hindering product development, particularly for those domestic companies that are not part of larger international financial groups. These domestic companies must rely solely on data providers; however, the price of the data is so expensive that it renders new fund launches unviable.

6.7. Stewardship

One of our members faced problems with a listed company over the appointment of the minority shareholder representative person to the board of the company. This case is currently under legal review.

6.8. Benchmarks

The revision of the Benchmarks Regulation is as a considered positive step.

6.9. Anti-Money Laundering

There have been no notable developments on this issue during 2023. The supervisory authority is planning to reshape its surveillance activity in the near future, focusing on a more risk-based approach.

6.10. Digital Finance & Cybersecurity

Aside from the increasing administrative burdens, no significant need for further technological developments among domestic ManCos is anticipated.

6.11. Other regulatory developments

A new regulation on fund classification is being prepared, which will enter into force in the second half of 2024.

7. PENSIONS & PEPP

There have been no notable developments in this issue during 2023.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The withholding tax on funds and deposits was raised from 15% to 28% in 2023. Investments held in a special savings account, with a minimum savings period of five years, remained tax free. This tax increase had no significant negative effect on savings, as the massive inflows into funds continued.

For political reasons, the US quit the double tax treaty with Hungary in 2023. As a consequence, the domestic funds significantly reduced their direct investments in US securities, replacing them with indirect exposures.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There is a foundation in Hungary - founded and financed by the National Bank and other relevant financial associations - that plays a leading role in promoting financial literacy, particularly among students aged 12-18. The main activities of the foundation are:

- publishing books and other teaching materials for basic and secondary schools
- training teachers
- organising educational events (such as ‘money week’), competitions and games.

10. OTHER ACTIVITIES OF THE ASSOCIATION

The BAMOSZ website (www.bamosz.hu) provides a daily updated database of all publicly offered domestic investment funds. This is free to access for any interested user. Investors can compare the returns on different investment funds, helping them to choose the one most suitable for them.

IRELAND COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Ireland (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	3,048.4	3,324.2	4,067.8	3,652.6	4,082.7
Funds domiciled abroad and promoted by national providers					
Total net assets	3,048.4	3,324.2	4,067.8	3,652.6	4,082.7

Table 2: Net Sales of Investment Funds in Ireland (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	284,334.8	235,281.0	310,275.0	89,270.0	169,890.0
Funds domiciled abroad and promoted by national providers					
Total net sales	284,334.8	235,281.0	310,275.0	89,270.0	169,890.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	838.1	958.0	1,330.6	1,197.1	1,474.1
Bond funds	712.6	747.1	850.8	741.0	831.2
Multi-asset funds	152.8	153.8	200.4	123.9	127.5
Money market funds	557.3	611.0	637.7	688.4	726.3
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	54.7	58.2	76.3	63.8	58.3
Total	2,315.5	2,528.1	3,095.8	2,814.1	3,217.4
of which ➤ ETFs	539.9	628.0	892.2	855.0	1,114.3
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	37,605.4	68,274.0	134,504.0	37,595.0	94,722.0
Bond funds	138,461.7	50,318.0	74,593.0	-35,611.0	54,922.0
Multi-asset funds	21,205.8	2,933.0	29,141.0	679.0	-2,219.0
Money market funds	56,148.0	88,321.0	-9,121.0	47,797.0	38,024.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	629.8	3,936.0	8,533.0	-10,925.0	-8,036.0
Total	254,050.7	213,780.0	237,650.0	39,535.0	177,413.0
of which ➤ ETFs	97,289.9	76,778.0	131,282.0	80,642.0	141,422.0
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	79.7	81.7	94.7	60.4	81.8
Bond funds	110.5	106.7	125.5	63.6	69.5
Multi-asset funds	152.3	163.0	177.6	124.4	125.9
Money market funds	5.5	4.9	4.3	3.5	3.4
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	17.3	19.0	20.4	22.6	23.8
Other funds	367.6	420.9	549.6	564.1	560.9
Total	732.9	796.1	972.1	838.5	865.3
of which ➤ ETFs	0.04	0.1	0.1	0.1	0.1
➤ Funds of funds					
➤ Institutional funds	697.9	761.1	934.0	807.6	827.0

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-3,858.0	-3,021.0	-7,120.0	-6,699.0	10,827.0
Bond funds	2,923.0	-2,650.0	15,771.0	2,673.0	2,040.0
Multi-asset funds	4,759.0	-356.0	-7,746.0	696.0	-7,684.0
Money market funds	702.0	-203.0	-1,014.0	-861.0	-107.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	1,845.6	2,283.0	733.0	878.0	827.0
Other funds	23,912.5	25,448.0	72,001.0	53,048.0	-13,426.0
Total	30,284.1	21,501.0	72,625.0	49,735.0	-7,523.0
of which ➤ ETFs	14.0	54.0	-9.0	-8.0	
➤ Funds of funds					
➤ Institutional funds	26,709.7	29,905.0	74,916.0	51,284.0	-11,856.0

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	4,684	4,843	5,076	5,297	5,444
Home-domiciled AIFs	2,962	3,105	3,287	3,345	3,426
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	801	716	786	608	548
Fund liquidations	440	400	362	338	432
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

Macroprudential policy and Liquidity management

There has been an increased regulatory and industry focus on macroprudential policy measures for AIFs and UCITS throughout 2023, with an emphasis on liquidity management. The Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) launched their macroprudential consultations[1] in Ireland in July 2023, at an event hosted by the Central Bank of Ireland. In July, the Bank published Discussion Paper 11 'An approach to macroprudential policy for investment funds', which sought feedback from industry on:

- the channels through which investment funds can generate systemic risk
- the current regulatory framework for investment funds
- the key proposed objectives and principles of macroprudential policy for investment funds
- the design and deployment of macroprudential tools for investment funds
- Key considerations for operationalising a macroprudential framework for investment funds.

1 The Central Bank is hosting the Financial Stability Board (FSB) and the International Organisation of Securities Commissions (IOSCO) stakeholder outreach on open-ended funds

Last, in November 2023, the Central Bank consulted with industry on macroprudential measures for GBP liability-driven instruments. Irish Funds responded to each of the consultations, and the responses are available on our public website.[2]

At the end of 2022, Ireland was the first country to activate the leverage limits provided for under Article 25 of AIFMD.[3] Article 25 of the AIFMD provides for the imposition of leverage limits that AIFMs are entitled to employ with respect to the AIFs they manage, where such use by those AIFs contributes to systemic risk or disorderly markets. These policy measures on Irish property funds are the first such measures to be introduced under the third pillar of the CBI's macroprudential policy framework, which covers non-banks. Additionally, the Central Bank consulted with industry and the Central Bank has indicated that it will continue to focus on macroprudential policy with a focus on leverage in 2024.

Private Assets and ELTIF 2.0 Regime

Please see a full update in response to section 5.5 on the significant programme of work during 2023 by the Central Bank and industry stakeholders to implement an ELTIF chapter in the Bank's AIF Rulebook.[4]

Costs and Fees

In March 2023, following their 2021 review of the costs and fees charged to UCITS, the Central Bank published a letter to industry.[5] This highlighted the main findings, set out the Bank's expectations and identified key actions to be taken by firms. The Bank also set expectations that AIF managers consider the findings and actions on the costs and fees charged to AIFs.

Central Bank Delegation Survey to Fund Management Companies

In October 2023, the Central Bank issued a survey / questionnaire to all fund management companies in order to gather data on the approach taken by FMCs to monitor delegation arrangements. This was not a supervisory assessment, but rather a data-gathering exercise in order to gain a holistic view of the level of delegation within the industry.

Central Bank Guidance updates

In terms of guidance updates, the Central Bank issued new and updated guidance on regulatory requirements for AIFs. These included five new Q&As and five revisions/updates in the AIFs Q&A[6] on cryptoassets, the ILP, the loan origination regime, PRIIPs filings and clarifications

- In April 2023, the Central Bank published a revision to their Q&A, which considered whether a RIAIF or a QIAIF can invest either directly or indirectly in cryptoassets. The revised Q&A does not change the Bank's position in relation to RIAIFs. The Bank increased limits for indirect exposure to digital assets, depending on the liquidity provided by the QIAIF. Where a QIAIF is open-ended, it can gain exposure to digital assets of up to 20% of NAV. Where a QIAIF is closed-ended, or has limited liquidity, it can gain exposure to digital assets of up to 50% of NAV.

- In early November 2023, the Central Bank set out the circumstances under which it may exempt, pursuant to Section 15(1) of the Investment Limited Partnerships Act 1994, an investment limited partnership from the provisions of European Union (Qualifying Partnerships: Accounting and Auditing) Regulations 2019.

- Also in early November 2023, the Central Bank extended the exemption from the loan origination regime currently available to AIFs who grant loans to subsidiaries to AIFs who grant loans to co-investment vehicles in which they have a majority interest.

- In late November 2023, the Central Bank clarified that a PRIIPs KID must be filed on their online portal.

2 Publications & Media (irishfunds.ie)
3 Macroprudential Measures for Property Funds | Central Bank of Ireland
4 aif-rulebook--march-2024.pdf (centralbank.ie)
5 Industry Letter on Common Supervisory Action on the supervision of Costs and Fees of UCITS (centralbank.ie)
6 AIF Q&A | Central Bank of Ireland

- Three new Q&A updates were also added, in order to consider what is permissible when a RIAIF/QIAIF invests through a subsidiary.

The Central Bank issued new and updated guidance on regulatory requirements for UCITS, including two new Q&As and five updates in the UCITS Q&A[7], primarily on PRIIPs filings.

- Two new Q&As were released on the filing requirements for PRIIPs KIDs of UCITS which intend to market to different types of investors. Three amendments to existing Q&As were updated on PRIIPs filing requirements. One further amendment was published to clarify that from 1 January 2024, those UCITS authorised prior to 1 January 2023 that are required to provide a PRIIPs KID should submit this to the Central Bank through the portal, in line with the guidance on the Bank's website.

- One amendment was published to reflect a change in terminology usage only. It reaffirmed the Bank's current position on a UCITS gaining exposure to digital assets.

These developments reflect the CBI's ongoing efforts to ensure that UCITS are managed in a manner that is consistent with best practice and that protects the interests of investors.

The Central Bank issued a Dear Chair' letter to all asset managers on the 2022 ESMA Common Supervisory Action (CSA) on asset valuation[8] in December 2023. As part of the CSA, the Bank required a sample of 30 firms to complete the questionnaire. The letter requires all firms to "conduct a review of their asset valuation frameworks to ensure they continue to be fit for purpose and adhere to all relevant legislative requirements including the expectations above". This review should be completed by the end of Q2 2024.

5.2. MiFID II

The Central Bank conducted a thematic review in order to assess how those investment firms undertaking algorithmic trading have incorporated - within their risk management and control frameworks - the requirements set out in Commission Delegated Regulation (EU) 2017/589 (RTS 6)1, supplementing Directive 2014/65/EU (MIFID II). This review focused on the requirements of Article 9 of RTS 6 related to firms' annual self-assessments and validation of compliance with all articles of RTS 6 on algorithmic trading activity. In November 2023, the Bank published its findings[9], generally noting significant improvements and evidence of positive practices. The Bank further clarified their expectation that all firms engaging in algorithmic trading activity consider the contents of this letter and undertake the following actions:

- Consider the findings and positive practices noted and adopt appropriate remedial actions in order to further develop governance and risk management frameworks that support algorithmic trading activity.

- Ensure that appropriate control and oversight arrangements are in place for the annual self-assessment process and the requirements of both Article 9 and RTS 6 more broadly.

- Consider existing templates for the RTS 6 Article 9 self-assessment against the findings outlined, in order to ensure sufficient detail is being compiled to adequately assess compliance with RTS 6.

- Assess the current training and development programmes - particularly for existing staff - to ensure there is adequate training provided to ensure continuous professional development.

7 Regulatory Requirements and Guidance for UCITS | Central Bank of Ireland
8 Industry Letter - 2022 ESMA Common Supervisory Action on Asset Valuation (centralbank.ie)
9 thematic-review-of-the-annual-self-assessment-and-validation-process-across-firms-undertaking-algorithmic-trading-activity (centralbank.ie)

5.3. CSDR

The Central Bank has been designated the Competent Authority responsible for carrying out the duties under CSDR for authorising and supervising CSDs established in the State.

Currently, Ireland uses settlement systems located in a number of different European countries. Trades in Irish government bonds and Irish corporate securities - as well as some exchange-traded funds (ETFs) - are generally settled through Euroclear Bank, located in Belgium. The remaining Irish ETFs are settled through other European CSDs.

No guidance has been issued by the Bank to date on whether there are any circumstances in which a fund may bear the costs of cash penalties imposed by a CSD due to a settlement fail of an in-scope transaction executed on behalf of that fund.

On 6 October 2014, the standard settlement period for equities traded in Ireland was shortened from T+3 to T+2. The standard UCITS fund settlement cycle is T+3.

In terms of the proposed shortening of the settlement cycle, the Central Bank's current focus is on determining operational readiness in the market. In advance of 28 May 2024, funds with exposure to US securities will need to ensure that the trading and settlement procedures contained in their prospectuses, supplements and third-party agreements are updated with new provisions, aligning with a T+1 settlement regime in the US. It is critical to have all such changes submitted to the Central Bank for review and approval well in advance of the 28 May 2024 cycle-change date. The timeframes between making such submissions and their approval by the Central Bank must be accounted for, both when considering these updates and the date by which they need to be in effect.

5.4. EMIR

The Central Bank has issued guidelines[10] to help firms prepare; these set out the reporting obligations and provide advice on implementation. The new reporting requirements under EMIR REFIT come into force from 29 April 2024. The Bank has advised that Financial Counterparties and Non-Financial Counterparties should engage with their Report Submitting Entities and their Trade Repositories to ensure that they are in a position to report under the new reporting requirements as of 29 April 2024.

5.5. ELTIF

Considering the changes at a European level, and that the ELTIF Regulation is directly applicable in all EU Member States, the Central Bank assessed the national framework for ELTIFs and identified the need for a standalone chapter in the Bank's AIF Rulebook that would support its implementation in Ireland.

In November 2023, the Bank published Consultation Paper 155[11], which was a proposal to include an ELTIF chapter in the Central Bank's AIF Rulebook[12] to support the establishment of ELTIFs in Ireland.

The response period was a shortened timeframe of four weeks; subsequently, in March 2024, the Bank updated the AIF Rulebook to include the new chapter.

5.6. Sustainable finance

In advance of the 1 January 2023 implementation deadline for Level 2 requirements under the Sustainable Finance Disclosure Regulation (SFDR), the Central Bank published formal confirmation of the fast-track process for filings.[13] When approaching implementation of the SFDR and Taxonomy Regulation for investment funds, the Bank adopted a pragmatic approach consisting of a streamlined filing process in conjunction with reviews on a sample of the submissions made. In September 2023, the Bank published details of an initial review conducted

10 EMIR Regulation | Central Bank of Ireland
11 CP155 - Consultation paper on ELTIF chapter in the AIF Rulebook (centralbank.ie)
12 Central Bank publishes updated AIF Rulebook to include ELTIF chapter
13 Process clarification for UCITS and AIFs pre-contractual documentation updates in relation to the Level 2 measures in relation to the Sustainable Finance Disclosure Regulation (centralbank.ie)

on SFDR implementation by the Irish funds sector. The Bank acknowledged that there are challenges with SFDR implementation and greater clarity around the legislation is needed.[14] In November, the Bank held a workshop with Irish Funds and our members, to ensure the effectiveness of the process. At the workshop, the Bank presented 14 detailed findings covering topics including index tracking funds, asset allocation and the consideration of PAIs.

Ireland has also influenced the sustainable finance agenda at the European level and in the detailed work that is involved in negotiating the various legislative proposals. In June 2023, the European Commission published a package of measures aimed at building on and strengthening the foundations of the EU sustainable finance framework. This contains elements relating to the EU taxonomy, ESG ratings providers, the usability of the EU sustainable finance framework and transition finance. A key part of the package is the SFDR. Concerns have been expressed that SFDR has so far been ineffective in tackling greenwashing and that the EU disclosure regime is being used as a marketing/ labelling regime. In order to address such concerns, the Commission launched a consultation, in September 2023, on the implementation of SFDR. The Central Bank and Irish Funds responded to the consultation.[15]

The exact number of IE asset managers will now have to report under the Corporate Sustainability Reporting Directive (CSRD).is not known. The Directive applies to asset managers managing portfolios of at least €500 million of assets under management (AuM).

ESG data availability has improved in recent years. However, many in the industry still find it challenging to access reliable data to meet the SFDR requirements. This is in part due to the fact that for the first time, companies have to apply the new CSRD rules for the 2024 financial year for reports published in 2025.

5.7. Stewardship

In 2022, the Central Bank published the Sustainable Investment Charter.[16] The purpose of this is to act as a guide on how sustainable investment principles will apply to their investment practices. As an integral part of the Bank's culture of acting sustainably, it aims at investing its financial assets in a sustainable manner, in accordance with the Central Bank Commission's approved risk appetite and consistent with the Bank's discretionary Investment Policy Framework. The Bank believe that stewardship of the investment assets should go hand-in-hand with sustainable investment practices that seek to minimise the ESG risks of their assets. In March 2023, the Bank published their Climate Action Roadmap[17], which supports the Central Bank on a legally binding path to net-zero emissions no later than 2050, and to a 51% reduction in emissions by the end of this decade.

In 2023, there was an increased focus on enhanced corporate governance through the Individual Accountability Framework (IAF), which was signed into law on 9 March 2023 and was partially commenced on 19 April 2023.[18] The IAF includes the following key elements:

- Senior Executive Accountability Regime: This will require in-scope firms to set out clearly and fully where responsibility and decision-making lie within the firm's senior management.
- Conduct Standards: These include the Common Conduct Standards; a set of expected standards that apply to certain individuals in all regulated firms, and the additional conduct standards, which apply to senior executives in all regulated firms; this has applied from 29 December 2023.
- Enhancements to the current Fitness & Probity Regime: This includes clarifying firms' obligations to proactively certify that individuals carrying out certain specified functions are fit and proper.
- Amendments to the Administrative Sanctions Procedure (ASP). A key change will be the Central Bank's ability to take enforcement action under the ASP directly against individuals for breaches of their obligations rather than only for their participation in breaches committed by a firm.

14 Sustainable Finance in Practice for Fund Managers - Remarks by Patricia Dunne, Director of Securities and Markets Supervision (centralbank.ie)
15 finance-2023-sfdr-implementation - European Commission (europa.eu)
16 Sustainable Investment Charter (centralbank.ie)
17 Central Bank of Ireland Operations Climate Action Roadmap
18 Individual Accountability Framework | Central Bank of Ireland

In comprehensive responses to Central Bank consultation papers 153, 'Enhanced governance, performance, and accountability in financial services[19]' and 154, 'Consolidated Guidelines in respect of the Central Bank's Administrative Sanctions Procedure[20]', Irish Funds supports the core principles of IAF, emphasising its potential for bolstering corporate culture, enhancing individual accountability, mitigating risks and fortifying consumer protection.

The Bank also intends to consult, in 2024, on a regulatory framework establishing rules and guidance in relation to the treatment, correction and redress of errors in investment funds (CP130[21]). The Bank considers that the guiding principle for any such framework should be that where an error occurs, the fund and/or the investor must be appropriately rectified. Irish Funds has established a working group to respond to the consultation.

5.8. Benchmarks

There have been no significant updates in 2023. The CBI has published a 'key facts' document to provide guidance in terms of compliance[22].

5.9. Anti-Money Laundering

Given the ongoing situation in Ukraine, there was a continued focus on financial sanctions throughout 2023. In response to the EU's swift adoption of sanctions, the CBI placed a dedicated Russian/Ukraine Regulations page on its website. This sets out important information, including details on the sanctions adopted; financial sanctions requirements; what to do if a match or 'hit' of a sanction occurs and how to apply for authorisations/derogations.[23]

In addition, Irish Funds delivered regular bulletins, FAQs and updates to member firms.

In January 2024, the Department of Finance in Ireland applied to host the new EU anti-money laundering agency in Dublin. Frankfurt was ultimately chosen jointly, in a process involving Member States and two committees of the European Parliament.

5.10. Digital Finance & Cybersecurity

The Central Bank operational resilience guidance[24] was published in December 2021, setting out its expectation of firms for addressing operational resilience vulnerabilities and for being "in a position to evidence actions/plans to apply the Guidance at the latest within two years of its being issued". Firms presented their plans to their Boards by December 2023.

In September 2023, Irish Funds hosted an event with KPMG to provide guidance to the asset management sector, including fund management companies, MiFID, administration and depositary firms to help inform those preparing their firm's operational resilience programme and published a technical guide on implementation.

The Department of Finance in Ireland launched a public consultation on the exercise of national discretions in August 2023, providing a feedback statement in December 2023.[25] The response noted that Titles III and IV of MiCAR will apply from 30 June 2024, that the full regulation will apply from December 2024 and the transposition date for MiCAR to take effect in Ireland is 30 June 2024.

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19 CP153 - Enhanced governance, performance and accountability in financial services Regulation and Guidance under the Central Bank (Individual Accountability Framework) Act 2023
20 CP154 - Consolidated Guidelines in respect of the Central Bank's Administrative Sanctions Procedure
21 CP130 - Treatment, Correction and Redress of Errors in Investment Funds (centralbank.ie)
22 Benchmarks Regulation | Central Bank of Ireland
23 Financial Sanctions - FAQ | Central Bank of Ireland
24 Cross Industry Guidance on Operational Resilience (centralbank.ie)
25 Market in Crypto Assets Regulation (EU) 2023/1114: Public consultation on the exercise of national discretions | Department of Finance Consultation Portal

The Central Bank has confirmed that they will be designated as the NCA for authorising and supervising those entities that will be subject to MiCAR. Firms that may provide services or products under MiCAR have been encouraged to engage with the Bank at their earliest convenience.[26]

The Bank has commenced its preparation for implementing MiCAR, establishing a cross-sectoral team to integrate MiCAR into the Central Bank's supervisory and authorisation processes and methodologies. The Bank will issue further communications on the authorisation and notification processes in due course. In addition, the Bank will continue to monitor developments on cryptoassets in order to assess any risks to consumer protection and financial stability.

The Bank has also provided guidance in terms of the Digital Operations Resilience Act (DORA)[27], and have noted the similarities between a number of key DORA requirements and existing Central Bank guidance on outsourcing, operational resilience and IT & cybersecurity risks and sectoral guidelines. The Bank has advised that financial entities should be planning the steps needed between now and January 2025 to ensure that they can comply with this regulation and support the intended benefits of increased harmonisation of digital operational resilience across the European financial system.

5.11. Other regulatory developments

The Department of Finance - Funds Review 2030; A Framework for Open, Resilient & Developing Markets

On 21 June 2023, Minister for Finance Michael McGrath TD published an open consultation; 'Funds Sector 2030: A Framework for Open, Resilient & Developing Markets'. Key objectives included developing a framework where Ireland can maintain its leading position in fund management and fund servicing, and ensuring that the sector continues to support economic activity at both regional and national levels in Ireland.

The review seeks to ensure that the funds sector in Ireland is resilient and that the regulatory and supervisory frameworks are future proofed, supportive of macroprudential stability, investor protection and consistent with international best practice standards.

The Department established a dedicated team to conduct the Review and report to the Minister for Finance in summer 2024.[28]

Irish Funds responded to the public consultation on 15 September 2023.

A progress update was issued on 21 December 2023.[29] The review team is continuing to engage with Irish Funds and other stakeholders in early 2024 to close information gaps and to source additional data.

Consultation Paper 156 Central Bank approach to innovation engagement in financial services

In November 2023, the Central Bank launched a public consultation CP156, 'Central Bank approach to innovation engagement in financial services'.[30] The Bank acknowledges the need to increase its engagement with innovators as well as the wider innovation ecosystem and stakeholders. It is planning enhancements to its innovation hub and to increase engagement with the innovation ecosystem in financial services. It also proposes to establish an innovation sandbox programme, which will allow innovative firms to engage with the regulatory framework in a clear and transparent way, helping develop innovations that promote better outcomes for society and the financial system.

26 Markets in Crypto Assets Regulation (MiCAR) | Central Bank of Ireland
27 Digital Operational Resilience Act (DORA) | Central Bank of Ireland
28 gov - Funds Sector 2030: A Framework for Open, Resilient & Developing Markets (www.gov.ie)
29 gov - Minister McGrath publishes a progress update on review of funds sector in Ireland (www.gov.ie)
30 Consultation Paper 156 Central Bank approach to innovation engagement in financial services

6. PENSIONS & PEPP

In Ireland, the government is currently reforming the existing pension system to ensure that it provides better value and security for individuals. This includes introducing a new system of auto-enrolment to address pension gaps among employees.[31]

The current plan is to enrol those aged 23-60 and earning over EUR 20,000 with contributions matched by employers and the state. Opt-ins for those earning less and outside the age range would be possible. Contributions will be phased in and flexibility allowed. An independent body, the Central Processing Authority, will oversee the system. The reform also foresees an increase in the state pension age and a new EUR 100,000 cap on the tax relief that individuals can receive on pension contributions. These changes are expected to come into effect in the second half of 2024.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Minister for Finance published the Finance (No. 2) Bill 2023[32] in October 2023, setting out the legislative provisions to bring the tax measures announced in Budget 2024 into effect. These included new international rules for the taxation of large corporates.

The Bill implements the pillar two minimum effective tax rate for large groups and companies through transposing the EU Minimum Tax Directive (Council Directive (EU) 2022/2523 of 15 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union) into Irish law.

The Bill also includes legislative tools to introduce new defensive measures that apply to outbound payments of interest, royalties and distributions (including dividends) to jurisdictions on the EU list of non-cooperative jurisdictions, no-tax and zero-tax jurisdictions. These are aimed at the prevention of double non-taxation and to meet commitments contained in Ireland's National Recovery and Resilience Plan (NRRP).

The Irish Government confirmed that Ireland is committed to eliminating opportunities for base erosion and profit shifting. Ireland's NRRP set out a series of commitments to be delivered in relation to tackling aggressive tax planning. Many of the comments set out in the plan have been implemented in recent years, through the delivery of Ireland's corporate tax roadmaps. The final remaining commitment under the NRRP is to introduce legislation that applies to outbound payments to prevent double non-taxation. The implementation of these proposals therefore represents a critical part of the legal commitment made by Ireland to secure funding under the Recovery and Resilience Facility.

The rules will come into effect for in-scope businesses with accounting periods beginning on or after 31 December 2023.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In 2019, the Irish Department of Finance launched the Ireland for Finance Strategy[33] to further develop the international financial services (IFS) sector in Ireland to 2025. The vision of the Strategy is for Ireland to be a top-tier global location of choice for specialist international financial services.

The Strategy includes a talent pillar that seeks to ensure that Ireland continues to have skilled people to meet the demands of the IFS sector, including meeting new and changing skills. The Strategy is updated each year by means of annual action plans.

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31 gov - Auto-enrolment (www.gov.ie)

32 gov - Minister McGrath publishes Finance (No. 2) Bill 2023 (www.gov.ie)

33 gov - Ireland for Finance (www.gov.ie)

In 2023, Indecon International Consultants completed a report for the Expert Group on Future Skills Needs secretariat within the Department of Enterprise, Trade and Employment. It assessed the future skills requirements of high potential sub-sectors of the international financial services sector from 2023-2027. Seven IFS subsectors were identified and formed the key focus of the study: fintech and payments; asset management; investment funds and securities services; insurance and reinsurance; international banking; wholesale capital markets; and aircraft leasing and finance. The report includes targeted recommendations to address the skills requirements for these IFS subsectors and they will be delivered through collaboration between industry, education/training bodies and government stakeholders. The report is expected to be published in Q1 2024, and will be followed by a programme of work that includes establishing a national oversight and implementation group to coordinate implementation of the report recommendations.

In addition, the Department of Finance is undertaking an extensive stakeholder engagement process, including issuing a questionnaire in August 2023 that sought information on those financial literacy/education initiatives currently in place and being delivered by government departments, state agencies, civil society, NGOs, representative bodies and the financial sector.

While the key objective of this stakeholder engagement process is to take stock of current financial literacy initiatives in place, it will be used to identify potential gaps in financial literacy. Once this stage is completed, work will commence on developing a national financial literacy strategy, informed by input from this stock-taking exercise and by international best practice in this area.

Irish Funds, with the support of its member firms, has developed a robust, experiential and interactive financial literacy programme covering financial literacy, digital finance, sustainable investing and life competencies.[34] The approach is based on the financial literacy programme design and framework in the Joint EU/OECD-INFE Financial Competence Frameworks for adults, published in January 2022. This contained over 500 financial competencies integrating digital finance, sustainable finance and daily life competencies for current and future financial wellbeing, which were incorporated into our programme design.

The current Irish Funds financial literacy programme is tailored to transition year students and delivered through the lens of the investment funds and asset management industry to also promote the breadth of career opportunities available to students in our industry before they make career decisions. It also serves to promotes a better awareness of the funds industry and the role that this sector plays in supporting investment in the real economy.

The programme was successfully piloted to over 400 students in 11 schools in six counties - Cork, Dublin, Galway, Kilkenny, Limerick and Tipperary - covering a range of school profiles in the 2022/23 academic year. The 2023/24 cohort of this programme is currently underway. In addition to the above counties, where it shall be repeated, further schools in Sligo and Roscommon have been added.

The reoccurring programme consists of six weekly modules (each an hour long) presented to one TY class in each of the schools engaged. These are led in the classroom by a project lead facilitator retained by Irish Funds and by an assigned and trained industry lead, volunteered from the membership.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Irish Funds issued 50 publications in 2023, on topics including distribution, fintech, technology skills needs and digital assets.[35] We held 38 events (30 in-person and eight webinars)[36], including our Annual Global Funds Conference in May and our UK Symposium in November. These events were attended by over 4,300 people, with further distribution via our video channel on Vimeo and the Irish Funds podcast channel.

34 Relaunch of Irish Funds' TY Programme | Irish Funds Industry Association | International Investments
35 Irish-Funds-Activities Overview 2023
36 Events Calendar | Irish Funds Industry Association | International Investments

ITALY COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets of the Fund Industry in Italy (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	332.8	340.4	358.3	340.6	373.4
Funds domiciled abroad and promoted by national providers	306.5	329.6	369.8	306.5	344.6
Foreign-domiciled funds promoted by foreign providers	425.4	455.6	526.6	445.3	460.4
Total net assets	1,064.7	1,125.5	1,254.7	1,092.3	1,178.6

Table 2: Net Sales of Investment Funds in Italy (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	-7,629.9	4,698.2	6,776.3	606.2	5,799.4
Funds domiciled abroad and promoted by national providers	9,620.3	14,958.8	22,410.3	9,240.9	-15,235.7
Foreign-domiciled funds promoted by foreign providers	-8.2	5,776.2	29,920.4	-2,127.9	-15,202.9
Total net sales	1,982.2	25,433.2	59,106.9	7,719.2	-24,639.2

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	23.1	23.3	30.2	29.3	34.4
Bond funds	46.3	48.3	47.3	41.7	70.4
Multi-asset funds	109.3	118.0	141.0	127.9	120.6
Money market funds	1.8	1.9	1.9	3.1	3.5
Guaranteed/protected funds	0.03	0.02	0.02		
Absolute Return Innovative Strategies (ARIS) funds	64.0	49.6	38.1	26.3	22.4
Other funds					
Total	244.5	241.2	258.5	228.3	251.2
of which ➤ ETFs					
➤ Funds of funds	32.0	30.1	30.5	26.3	25.2

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-1,133.1	7.1	1,207.2	3,400.5	353.6
Bond funds	-141.9	1,607.6	-489.6	-254.2	26,257.6
Multi-asset funds	7,796.0	5,488.0	17,457.6	4,737.8	-15,907.1
Money market funds	-362.6	308.8	-4.8	1,157.5	491.7
Guaranteed/protected funds	-3.8	-2.9	-5.2	-7.1	
Absolute Return Innovative Strategies (ARIS) funds	-16,918.1	-12,545.5	-12,224.8	-8,547.5	-5,209.9
Other funds					
Total	-10,763.5	-5,136.9	5,940.3	487.1	5,985.9
of which ➤ ETFs					
➤ Funds of funds	-2,001.2	-2,867.7	-904.6	-3,114.2	-6,701.4

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds					
Multi-asset funds					0.01
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	64.8	72.1	72.1	79.6	86.1
Other funds	23.5	27.1	27.8	32.6	36.1
Total	88.3	99.2	99.9	112.2	122.2
of which ➤ ETFs					
➤ Funds of funds	1.2	1.2	1.0	0.8	0.6
➤ Institutional funds	85.7	95.9	95.8	105.8	117.2

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds					
Multi-asset funds					8.7
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	2,581.0	5,814.0			
Other funds	552.6	4,021.1	835.9	119.1	-195.3
Total	3,133.6	9,835.1	835.9	119.1	-186.6
of which ➤ ETFs					
➤ Funds of funds	-549.2	-109.0	-1.8	-59.7	-132.3
➤ Institutional funds	2,921.6	9,257.6	-36.7	-138.2	-268.7

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	1,177	1,162	1,155	1,112	1,110
Home-domiciled AIFs	900	991	1,000	996	1,231
Foreign funds registered for sales					
➤ By national promoters	1,045	1,032	1,044	915	1,131
➤ By foreign promoters	2,828	3,291	3,306	3,495	3,434
Fund launches	171	134	109	151	160
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

Home-domiciled funds represent one-third of the total fund assets of Italian investors. Adding the assets of foreign funds promoted by local providers (round-trip), Italian-promoted products reach a 60% share. The remaining 40% is managed by cross-border providers who distribute their funds through banks and financial advisors (tied agents) operating in the country.

In 2023, political and economic trends were often characterised by opposite signs and had different effects on financial markets. After a generally bullish first half of the year, markets reversed for a few months (August-September), finally turning positive in Q4, with a strong rebound.

In this context, the fund sector showed two (partially offsetting) opposing dynamics. Net flows - the main indicator of investor sentiment - were generally negative (down around 2% in terms of year-end assets, with the notable exception of local funds), but the overall market value showed a remarkable increase (8%), thanks to the general trend in the financial markets.

Even though table 4 only shows data for domestic UCITS, the differences in the net flow results by asset class tend to reflect the general market level (that is, including foreign products). In particular, the results for equity and multi-asset funds and for bond funds showed a marked reversal in 2023 compared with the previous year. This was particularly evident for Italian products, whose results were boosted by a new generation of fixed-term buy-and-hold bond funds, which Italian managers were quick to launch in response to the new and mostly unexpected high interest rates.

The alternative fund sector (tables 5 and 6) is still dominated by closed real estate funds, almost totally dedicated to institutional investors. However, a new breed of closed-end products, investing in other illiquid assets such as unlisted companies and SMEs, is growing ('other fund', 11% NAV increase).

This is a clear sign of the increasing interest of the investors - both retail and institutional - differentiating out of public markets and trying to benefit from the opportunities that lie in the so-called 'real economy' space. This is made up of a large number of unlisted companies that could benefit from more market-based financing solutions. This trend clearly goes in the direction of enhancing the contribution of the asset management sector to developing the Italian (and European) economy, in the spirit of the CMU.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

There were no notable developments in this area during 2023.

6.2. MiFID II

The MiFID II 'Quick-Fix' Directive (EU) 2021/338 has been implemented through the Italian legislative decree of 10 March 2023, No. 31. Assogestioni provided support to its members, in particular on the transition from the paper-based format to the electronic version of information provision to clients or potential clients.

6.3. CSDR

We are unaware of any feedback from the NCA on the impact of penalties on the level of settlement fails. Asset managers are known to generally be recipient of positive penalties because funds, usually, are on the long side only, and the principal cause of a trade failing is when the counterparty fails to deliver securities by the settlement date. The allocation of the penalty and its redistribution between participants and their clients have raised some uncertainties and significant operational impacts. However, in general the processes deployed in Italy - as far as we know - pass positive penalties on to the end client (fund). Several operational models apply to the penalty mechanism.

The proposed shortening of the settlement cycle in the US, Canada and Mexico (from T+2 to T+1 in May 2024) poses a number of challenges to the domestic industry. These mainly relate to FX financing, the recall of securities in securities lending transactions and the efficient management of liquidity for trading in securities with different settlement cycles. On the settlement cycle of fund subscriptions and redemptions, the impact to Italian based funds does not seem to be significant, given national rules, the investor base, the size of the fund and the size of net subscriptions/redemptions.

6.4. EMIR

There have been some challenges in implementing the new reporting obligations, including the need for companies to update their IT systems and processes to ensure compliance. Specific challenges in implementing the new reporting obligations were raised with the application of some identifiers and with the new provision that requires the entity responsible for reporting to notify its competent authority significant error or omission in the reporting.

In January 2024, Consob published a notice on compliance with the ESMA Guidelines for reporting under EMIR published on ESMA's website in all official languages of the Union on 23 October 2023.

6.5. ELTIF

Assogestioni is following the regulatory process aimed at the approval of the RTS for ELTIFs. Currently, the lack of RTS means there is considerable uncertainty, and there are no specific guidelines from national regulators following the entry into force of the new rules on ELTIFs on 10 January 2024. At this time, it is impossible to predict the likely reaction of asset managers and investors.

6.6. Sustainable finance

In 2023, asset management companies with more than 500 employees were required to publish a statement setting out the adverse impact indicators (PAI) of their investment activity on climate, environment and society. In Italy, a number of sub-threshold entities also chose to publish this statement on a voluntary basis, despite the fact that the data required for this information is not always easy to find.

In line with the European Commission's adoption of amendments to the delegated act of UCITS Directives - aimed at the incorporation of sustainability factors and risks in the provisions applicable to fund managers - the Bank of Italy presented their 'Supervisory Expectations on climate and environmental risks' in April 2022. Following this, Italian asset management companies took part in activities by the authority aimed at assessing the level of alignment with expectations. They were asked to submit an action plan describing actions planned to ensure full alignment of business practices and activities with expectations by 2025. The assessment of the action plans, along with the dialogue with asset managers and with the association, saw the authority publish a report in December 2023. This outlined the main evidence emerging and good practices in the integration of ESG risks that had been adopted by asset management companies in their business models, organisations and governance models and in their risk management and database systems.

With regards to the revision of regulations on sustainability disclosure, Assogestioni responded to the consultation on the SFDR review, expressing the industry's key concerns. It recommended consistency of the SFDR with other sustainability regulations, along with the need to ensure that sustainability disclosures provide end investors with clear and useful information on the sustainability characteristics of financial products. It also emphasised the relevance of a framework open to innovation and effective in supporting transition. The Association suggested changes to SFDR in order to overcome the current challenges, while limiting disruptions and maintaining the 'transparency-first' approach of the current regulation. Among the Association's requests were the upholding of entity-level disclosure, the implementing of a minimum uniform disclosure for all financial products (irrespective of their sustainability claims) on the integration of sustainability risks into investment decisions and a standard additional mandatory disclosure for financial products with a sustainability claim. Furthermore, the Assogestioni proposal envisaged a set of voluntary labels, intended to allow investors to more easily identify objectives and the different ways of investing in the sustainable transition.

In 2023, Italian asset management companies contributed to discussions on introducing an EU framework aimed at regulating the activities of ESG ratings providers, as well as the consultation on the adoption by European Commission of the first set of ESRS. Feedback provided to regulators show how a lack of information on investee companies' ESG performance remains a major concern for both asset managers and investors. As of now, in fact, it is still difficult to find comprehensive, up-to-date and comparable data required for the definition of sustainable investment policies and the fulfilment of regulatory transparency obligations, primarily the SFDR. On the implementation of the CSRD, practically all Italian asset managers are outside the scope of the application of the NFRD, and have only been involved in the NFRD reporting as part of a larger banking or insurance group. The largest Italian asset manager will be within this scope from 2025, when large non listed companies will be covered by the regulation.

6.7. Stewardship

Assogestioni, with technical assistance from AISCA (the Italian association of board secretaries) and a Legal Panel, in July 2022 developed and published the Italian Shareholder-Director Exchange (I-SDX). This aimed to encourage the adoption of good practices in dialogue between investors and boards of directors, as well as harmonising existing standards within the Italian market. The document is intended to provide investors and issuers with a framework for organising and managing effective and mutually beneficial shareholder - director engagement. It has also been made available with a view to developing issuers' engagement policies, many of them were inspired by the I-SDX in 2023.

On proxy advisors' self-regulation, one representative of Assogestioni has served as a member of the Oversight Committee of the Best Practice Principles Group (BPPG) since 2020. The BPPG was formed in February 2013 to promote greater understanding of corporate governance and ESG research as well as support services provided by proxy advisors to professional investors and other capital markets participants. The committee's task is to conduct an independent annual review of the public reports of signatories to the principles, as well as to provide guidance and advice to the BPPG on the operation and evolution of the principles.

As in previous years during 2023 AGM season, Assogestioni provided its technical and operational support for the presentation of minority slates by institutional investors for the election of candidates to the board of directors and the board of statutory auditors of Italian listed companies, according to the slate voting ('voto di lista') mechanism. (Please refer to section 6.11 for updates on Italian legislation regarding, inter alia, the increase of multiple voting rights.)

6.8. Benchmarks

There were no notable developments in this area during 2023. On the proposed revision to the benchmark regulation, Assogestioni generally supports the review, which broadens the possible range of EU and non-EU benchmarks that can be used by supervised entities.

6.9. Anti-Money Laundering

The Bank of Italy published the implementing measures of the EBA guidelines on policies and procedures for compliance management and the roles and responsibilities of the AML/CFT Compliance Officer On 1 August 2023.

According to the Bank of Italy regulations, financial institutions - including asset managers - and branches of EU and non-EU intermediaries are obliged to appoint a compliance manager at the first renewal of the management body, and no later than 30 June 2026. Where the branch does not have a management body, it clarifies that the role of compliance manager must be assigned to the branch manager.

The Italian Financial Intelligence Unit issued a new Regulation, on 25 May 2023, containing more than 300 anomaly indicators developed to support obliged entities in detecting suspicious transactions for AML/CFT purposes.

On sanctions against Russia, the Italian Financial Security Committee assigned the national FIU with the task of receiving reports from operators (including asset managers) on frozen assets and reserves of the Central Bank of Russia.

6.10. Digital Finance & Cybersecurity

In Italy, 2023 was marked by important developments in the Fintech sector concerning the adoption of a law and a regulation aiming at allowing the issuance and circulation of tokenised financial instruments. That process involved publishing the so-called 'Fintech' decree in March, which became law definitively in May, and the adoption by the Italian regulator (Consob), in December, of the first delegated regulation.

The Fintech decree is an important milestone for the asset management industry in Italy. This is because - as also encouraged by Assogestioni during the consultation phase - it allows for the issuance and circulation of tokenised fund units and shares. This applies even when not included in the scope of application of the DLT Pilot Regime Regulation, therefore aligning Italy with initiatives adopted in other Member States.

Moreover, with the first delegated regulation, Consob has given important clarifications – as solicited by Assogestioni in its response to the consultation - over the operational models that managers of tokenised fund units or shares could adopt in order to maintain the distributed ledger used for the digital circulation of funds shares.

6.11. Other regulatory developments

In April 2023, the Italian Government presented the Capital Markets Bill, aimed at enhancing the competitiveness of the Italian capital market. The bill was the result of a path adopted in 2022 with the Task Force 'Finance for

Growth 2.0', in which Assogestioni took part. This was followed by the Green Paper entitled 'The competitiveness of Italian financial markets in support of growth'. As part of this, in June 2023, the Association took part in a public hearing at the Italian Senate, highlighting aspects of this bill of major interest to the asset management industry. On that occasion, the Association: (i) expressed its appreciation for the measures facilitating the exercise of voting rights with regard to mandates; (ii) highlighted the critical issues related to deviations from the 'one share - one vote' principle without adequate safeguards to protect minorities, as well as the risks underlying the possible enhancement of multiple voting rights; (iii) highlighted profiles of interest to investors in relation to the manner in which shareholders' meetings are conducted. Later in the year, during the parliamentary discussions, amendments to the bill - in particular on the increase of loyalty shares and on the slate of the board of directors - were also included in the bill, despite being outside the scope of the Green Paper. Faced with this, the Association expressed the view to policymakers that these issues could be evaluated and refined through further in-depth analysis and assessment, in order to ensure the best level of comprehensibility for all market participants. This would contribute to the strengthening of the regulatory framework and avoid reducing interest in investing in our market, contrary to the stated objectives of the regulatory intervention.

Outsourcing arrangements reporting: As a result of a consultation process, the Bank of Italy published an Act in June 2023 on the implementation of reporting requirements of outsourcing arrangements by the supervised entities. Given that the first reporting exercise was due by the 31 December 2023, Assogestioni supported its members in completing the reporting flow to be submitted to the Bank of Italy by that date.

Whistleblowing: Italian legislators issued, in March 2023, legislative decree 24/2023 on whistleblowing, aimed at protecting those people who report breaches of national or European Union rules and at implementing Directive (EU) 2019/ 1937. Assogestioni supported its members on the provisions of the decree, and organised a meeting with its working groups to describe the main provisions and the related application.

7. PENSIONS & PEPP

There were no notable developments in this area during 2023.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Optional tax regime: step-up of investment fund units - The 2023 Budget Law (Law No. 197/2022) provided the option of unitholders of revaluating the tax cost of their units under certain conditions. This option could be exercised by 30 June 2023 with for units held on 31 December 2022, and required the payment of a special substitute tax of 14% (rather than the 26% ordinary tax rate). This is levied on the difference between the unit value on 31 December 2022 and its purchase or subscription cost.

Investment Manager Exemption for non-residents - The 2023 Budget Law has amended the definition of permanent establishment (PE) by excluding the existence of a PE of foreign investment vehicles acting through an asset manager in Italy, provided that certain conditions are met.

For this purpose, the asset manager is defined as any person - resident or non-resident - who, in the name of or on behalf of a non-resident investment vehicle or its direct or indirect subsidiaries, habitually concludes contracts for the purchase, sale or negotiation of financial instruments or otherwise assists it in the purchase, sale or negotiation of financial instruments, including through preliminary or ancillary activities.

The asset manager does not constitute a PE in Italy where the following conditions are met:

- The investment vehicle and its subsidiaries are resident or located in a state or territory that allows for an adequate exchange of information for tax purposes with Italy.

- The investment vehicle complies with certain independence requirements, which will be established by an implementing decree of the Italian Ministry of Economy and Finance.
- The asset manager does not hold any office in the management and control bodies of the investment vehicle (and any direct or indirect subsidiaries), and is not entitled to more than 25% of the investment vehicle profits.
- The manager receives remuneration for its services that is properly documented in accordance with the transfer pricing rules.

The implementing rules have been laid down in a decree of the Italian Ministry of Economy and Finance, dated 22 February 2024. In particular, the decree sets out detailed requirements for the independence of investment vehicles and asset managers. For this purpose, the definition of investment vehicle is broad and includes, inter alia, UCITS and AIFs as well as any collective investment undertakings located in a state or territory that allows an adequate exchange of information for tax purposes with Italy, provided that the undertaking or its manager is subject to prudential supervision and regulations that are substantially equivalent to UCITS Directive or the AIFMD.

Long-term individual savings plans (PIR) - Law Decree No. 145/2023 (converted into Law No. 191/2023) has introduced the possibility of investors simultaneously holding two or more ordinary long-term individual savings plans (*'Piani di risparmio individuali a lungo termine'* - PIR), provided that these are opened with the same intermediary or insurance company. The investment limits remain unchanged (EUR 40,000 in each tax year, with an overall limit of EUR 200,000) even in the event of multiple plans. The rule is effective from 17 December 2023.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In 2023, the focus of the committee for the planning and coordinating financial education activities was the promotion of financial education. This committee, which is part of the Italian Ministry of Economy and Finance, organised the fifth edition of 'The Month of Financial Education' from 1-31 October. The theme of personal finance was explored through seminars, lectures, webinars, games, educational workshops and free shows (both in person and online) throughout the country. The 11th edition of Global Money Week took place during March, an event dedicated to financial education for young people and involving more than 175 countries. New committee members took office on 9 October, with Donato Masciandaro (from Bocconi University) elected as President.

At the legislative level, the bill on modernisation and efficiency of the Italian capital market (the so called 'DDL Capitali') was an important development. As part of the procedure to approve the text, the introduction of financial education into school curricula was discussed. Assogestioni has monitored regulatory developments through the Edufin committee.

Financial education and training were also the focus of the 'Salone del Risparmio 2023', organised by Assogestioni. During the event, the Association reintroduced the 'Educational Corner', a physical space to present projects and the mission of its educational offerings. The initiative and its contents were directed towards industry professionals as well as to journalists, aspiring financial advisors, students and savers. Specifically, 15 sessions were organised in this second edition, with 1,282 visitors involved in person or via streaming. Furthermore, the 'Il tuo capitale umano' project attracted 250 students interested in a career in the financial sector, and allowed half of them to be interviewed directly on site.

Assogestioni's Financial Education Committee was also engaged in launching '2Cents' in 2023, the financial education program for young people edited by Will Media with the support of the Association. This is an initiative to communicate with Generation Z and the new Millennials through a cross-community platform, consisting of financial education posts on Instagram and TikTok, a podcast called 'Ramini' and high schools lessons.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Italian Corporate Governance Code: Having approved the new Corporate Governance Code in January 2020, the Italian Corporate Governance Committee (composed of issuers and investors associations - ABI, ANIA, Assonime, Confindustria, Assogestioni - as well as the Italian Stock Exchange - Borsa Italiana S.p.A.) focused during 2023 on adapting the annual report on compliance with the Code. It also continued an in-depth study of a possible review of the collection of Q&As relating to the new Code.

Catch-Up Programme: Assogestioni has organised a series of workshops, since 2019, on governance and sustainability issues aimed at offering independent directors and statutory auditors opportunities for professional update and networking. Each session involves representatives of the institutions and some of the leading experts on the issues addressed and provides for invaluable networking opportunities. The idea is to create a community where directors can develop and share their knowhow and experiences. It is also open to the functions of corporate secretary, chief governance officer and investor relator of Italian companies.

The Association initiated a partnership, in 2023, with the National Council of the Chartered Accountants. In addition, last autumn it organised a new catch-up course dedicated to statutory auditors. This was aimed at enhancing knowledge of the functioning of the board of statutory auditors, its responsibilities and prerogatives, risk management and the integration of sustainability factors.

Board Academy: in collaboration with Luiss Business School, Assogestioni has - since 2021 - developed and initiated a university specialisation course known as Board Academy. This is a programme aimed at training future directors and improving the effectiveness of the boards and corporate governance structures of listed and unlisted companies. The fourth edition kicked off in October 2023.

Digital Committee: Following the Assogestioni project's selection for the Call for Proposals 2022 of Milano Hub - the innovation centre created by the Bank of Italy to support the digital evolution of the financial market - its Digital Finance Committee participated in developing a set of Guidelines for the Italian Digital Funds. These aim to provide a tool to support the establishment and operations of Italian funds investing in digital assets, or whose units or shares are issued on a blockchain. Moreover, the Digital Finance Committee organised a series of seminars aimed at spreading awareness among asset management companies about the opportunities offered by Fintech. The seminars covered a series of topics relevant to the industry, such as AI and digital operational resilience. The Committee was also involved in monitoring legislation on digital finance at national, European and international levels.

Diversity Committee: the activities of Assogestioni's Diversity Committee continued in 2023 on Diversity, Equity & Inclusion (DE&I) in the asset management sector. The Committee carried out coordination activities aimed at encouraging sharing the paths and experiences of its members around gender parity certification. The Committee has also started an analysis for developing harmonised rules on DE&I at EU level for all regulated markets.

FocusRisparmio: information, education and insight: In 2023, Assogestioni continued its investment in information, engaging stakeholders through its print and web channels. The focal point of the Association's editorial universe is *FocusRisparmio*. This newspaper delves into the main themes of the industry, aiming to reach an of consultants, private bankers, fund selectors, asset managers and savers on a daily basis. This objective is most evident in the Magazine and the bimonthly 'Dossiers', which are thematic inserts analysing issues and trends in the sector, as well as in the website https://www.focusrisparmio.com.

The 'Salone del Risparmio: Assogestioni once again organised the 'Salone del Risparmio' in 2023, the flagship event of the Italian asset management industry. Now in its 13th year, the Salone now attracts more than 22,000 attendees and hosted the world's largest asset managers, with a combined investment value of USD 53.5 trillion. Last year's event saw 15,000 unique visitors, 190 brands, more than 120 conferences, 66 hours of training and over 460 speakers.

FR|Vision: the home of digital information: Another component of the editorial ecosystem of *FocusRisparmio is FR|Vision*, a broadcasting platform conceived and developed by Assogestioni. It is dedicated to conducting innovative communication through audiovisual tools facilitated by the digital revolution. Through this channel, the Association continued to explore the most pressing issues in the industry. It provides a diverse range of free content, both live and on demand, including conferences, training courses, in-depth reports, interviews and original video content from FocusRisparmio editorial team.

LIECHTENSTEIN COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Liechtenstein (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	53.9	55.0	68.0	70.1	126.7
Funds domiciled abroad and promoted by national providers					
Total net assets	53.9	55.0	68.0	70.1	126.7

Table 2: Net Sales of Investment Funds in Liechtenstein (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	3,532.7	1,316.1	4,291.3	5,820.2	36,484.7
Funds domiciled abroad and promoted by national providers					
Total net sales	3,532.7	1,316.1	4,291.3	5,820.2	36,484.7

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	9.6	10.1	13.0	12.7	13.2
Bond funds	7.8	7.8	8.1	7.9	8.9
Multi-asset funds	5.5	5.4	6.1	4.9	4.7
Money market funds	3.5	2.7	2.6	3.1	2.5
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.01	0.02	0.02	0.01	0.01
Other funds	2.7	2.6	3.2	3.1	5.4
Total	29.1	28.6	32.9	31.7	34.6
of which ➤ ETFs					
➤ Funds of funds	0.2	0.1	0.1	0.03	2.3

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-388.2	307.9	82.5	2,167.9	-837.5
Bond funds	-370.6	219.3	-75.5	459.3	446.1
Multi-asset funds	-380.2	-135.2	107.7	-428.2	-940.7
Money market funds	346.9	-533.6	-101.2	319.0	-585.8
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.8	0.3	-1.2	-0.4	-0.7
Other funds	67.1	-142.7	461.9	180.0	-242.8
Total	-724.2	-284.1	474.2	2,697.5	-2,161.4
of which ➤ ETFs					
➤ Funds of funds	-23.0	-20.8	1.8	-0.6	-133.3

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	1.7	1.7	2.0	1.8	2.2
Bond funds	2.6	2.0	2.2	2.9	3.2
Multi-asset funds	12.3	12.8	16.8	17.8	19.0
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.1	0.2	0.3	0.2	0.2
Real estate funds	0.2	0.3	0.3	0.3	0.3
Other funds	7.8	9.4	13.5	15.4	67.2
Total	24.8	26.4	35.1	38.4	92.1
of which ➤ ETFs					
➤ Funds of funds	0.2	0.2	0.2	0.1	15.1
➤ Institutional funds	0.01	0.02	0.04	0.07	0.2

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	477.3	-10.6	305.6	49.1	252.0
Bond funds	1,310.1	-78.0	372.9	503.5	57.1
Multi-asset funds	617.5	8.1	1,592.1	2,102.4	797.1
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	11.2	20.1	35.6	14.7	-9.6
Real estate funds	70.0	104.3	10.3	-9.5	22.8
Other funds	1,770.8	1,556.3	1,500.6	462.4	37,526.7
Total	4,256.8	1,600.2	3,817.1	3,122.7	38,646.1
of which ➤ ETFs					
➤ Funds of funds	-6.5	-6.0	-9.3	-26.9	304.4
➤ Institutional funds	14.7	-0.6	20.9	-0.1	77.0

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	883	888	1,024	1,194	1,188
Home-domiciled AIFs	870	1,032	1,188	1,273	1,299
Foreign funds registered for sales	453	572	707	927	1,159
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

UCITS

Conversion to PRIIPs: On 1 May 2023, the so-called ‘UCITS Quick Fix’ rules on the conversion from the UCITS KIID to the PRIIPs KID – adopted in the Liechtenstein UCITS Act - entered into force. The changes to the Liechtenstein PRIIPs Implementing Regulation, adopting the Quick Fix rules, had already come into force on 1 January 2023. The latter also included changes made on the basis of the PRIIPs Level 2 Regulation EU 2017/653, revised in accordance with the Amendment Regulation EU 2021/2268.

NCA guidance for UCITS and AIF

New guidance on the use on investment advisors was released, explaining the principles of investment advice relating to one or more financial instruments in a fund.

In the AIFM space, the FMA’s guidance on reporting obligations for AIFs and AIFMs was adapted in December 2023 to incorporate new links to the ESMA-consolidated AIFMD reporting template, ESMA website and the ESMA Technical Guidance (the AIFMD reporting validation rules had been amended in November 2023).

5.2. MiFID II

Restructuring of national MiFID II, asset management and banking regulation

In 2023, there were consultations on a number of new frameworks around a restructuring of the Liechtenstein Financial Market Legislation.

One element of this review is the implementation of the EU prudential supervisory framework for investment firms (IFD, IFR) into the existing Liechtenstein framework for investment firms (Vermögensverwaltergesetz, VVG-Act).

Outside the VVG-A, the new structure is primarily aimed at creating a separation between conduct and business from prudential supervision. The conduct of business provisions for those banks and class 2 and 3 investment firms not covered by the VVG-Act are contained centrally in the Investment Services Act (Wertpapierdienstleistungsgesetz). The approach for prudential supervision follows the structure of EU/EEA law almost entirely, and foresees a separation between the provisions for banks and for investment firms. While prudential regulations for banks (in particular CRD IV/CRR or - following their implementation - CRD V/CRR II) are still to be regulated in the Banking Act. The prudential regulations for class 2 and 3 investment firms, which are not covered by the VVG-Act, are contained in the Investment Firms Act.

5.3. CSDR

There were no notable developments in this area during 2023.

5.4. EMIR

Review of the Liechtenstein EMIR Implementation Act

The Liechtenstein EMIR Implementation Act was subject to consultation, with a view to implementing the EU Regulation on a framework for the recovery and resolution of central counterparties amendments. The proposed changes aimed measures to overcome financial emergencies and to maintain the critical functions of a CCP in default or at risk of default.

5.5. ELTIF

There were no notable developments in this area during 2023.

5.6. Sustainable Finance

National implementation of European sustainability legislation in Liechtenstein

The implementation of the Sustainable Finance Package has become a regular topic of exchanges between LAFV and the Liechtenstein FMA. In particular, these pertain to the uptake of ‘green categories’ of funds, with reference to the requirements of Articles 8 and 9 of the SFDR, the implementation of the MiFID requirements on sustainability preferences. Another area of focus was on the level of voluntary publication of PAI information of websites. The lack of ESG data and clear sustainable product categories were viewed as the most important impediments. More generally, discussions addressed suitability tests, the presentation of sustainability-related information in the fund documentation, expectations on fund names and rules on greenwashing.

In autumn 2023, the FMA undertook a self-assessment of the Liechtenstein market, in order to gain a clearer picture of the status of implementation of the regulatory requirements.

Likewise, in Q4 2023, the FMA developed an auditing standard for sustainable finance with the Auditors Association. Once finalised, these standards will be integrated into the NCA guidance containing the comprehensive auditing standards.

On the ESMA Common Supervisory Action (CSA) in the field of sustainability, a number of market participants were sent a 13-question survey. This contained three sections; ‘Integration of sustainability risks and factors’; ‘Transparency of disclosures: entity level disclosures’; and ‘Transparency of disclosures: product level disclosures’ as well as a set of product-specific questions.

The LAFV is partner of a university platform - ESG Kompakt- on sustainable finance. Webinars are regularly held to strengthen exchanges between various players in the financial market and to discuss current topics from various perspectives.

5.7. Stewardship

There were no notable developments in this area during 2023.

5.8. Benchmarks

Review of the Liechtenstein EEA Benchmark Implementation Act

There was a consultation to amend the Liechtenstein Law implementing the EU Benchmark Regulation and to introduce a reference to ESMA as the competent supervisory authority for certain contexts. This was to incorporate the parallel change made at EU level, in the ESFS Review, into national law.

5.9. Anti-Money Laundering

National Risk Assessment (NRA) III

During 2023, there were an initial round of preparations in the run-up to the creation and publication of a government report on the third national risk assessment (NRA III) in the areas of combating money laundering, terrorist financing and proliferation financing. In accordance with the four-year cycle, the report is due in 2024 and covers the years 2019-2022. The preparations undertaken saw a special round of consultations of the associations representing the financial centre. LAFV and its members were asked to identify aspects considered to be highly relevant from a risk perspective in the areas mentioned.

Review of two pieces of NCA guidance

On the basis of developments in the AML space, the FMA consulted on two pieces of supervisory guidance. In order to strengthen the defensive measures and to address new technologies and developments in connection with video and remote identification, the FMA Liechtenstein updated guidance on safeguarding measures in the absence of personal contact. In addition, a number of smaller adaptations were made to the central FMA guidance for implementing AML rules, with specific provisions for every financial sector.

Q&A on the newest changes to the Liechtenstein AML rules

In previous years, the LAFV had produced a Q&A document with on a variety of implementing principles of the AML rules. This was done through a close exchange and in agreement with the FMA. During 2023, a number of further questions and answers were added.

5.10. Digital Finance & Cybersecurity

Review of a number of frameworks to implement EU Regulation 2022/858

During 2023, reviews of the Bank Act, the EEA CSD Act, the VVG Act and the Financial Market Supervision Act were undertaken, with a view to implementing EU Regulation 2022/858 on a pilot regime for market infrastructures based on distributed ledger technology. A speedy implementation is envisaged, in order to allow for the timely use of the new provisions in the dynamic and competitive field of digital finance.

Review of the Liechtenstein Token and Trusted Technologies Act TVTG

During 2023, an adaptation to the pioneering Liechtenstein Law in the area of digital finance, the Token and Trusted Technologies Act (Token und VT-Dienstleister-Gesetz, TVTG) was subject to consultation, in order to take account of the creation of the EU Regulation on Markets in Cryptoassets (MiCAR) at an early stage. In addition to aligning important concepts and terms in the provisions in the MiCAR draft and their introduction with certain transitional rules and simplifications, the new text also adjusted reflect initial practical experience (such as the optimal application of civil law and supervisory regulations and the legal function of a so-called 'tokenisation label'). In a second step - in order to accommodate the final MiCAR contents - a separate further adaptation of the TVTG is necessary.

5.11. Other regulatory developments

Review of the Liechtenstein Transparency Act

Another consultation involved a comprehensive review of the Liechtenstein Transparency Act (Offenlegungsgesetz), aimed at transposing the EU Transparency Directive into national law. The initiative also included adaptations recognising developments in the EU capital market legislation.

Review of the Liechtenstein Company Law

An amendment to Liechtenstein Company Law (Personen und Gesellschaftsrecht, PGR) was subject to consultation to incorporate the requirement of the inclusion of a sustainability report in the (consolidated) annual report and its disclosure and audit into national law as warranted by the EU CSRD. In addition, there were provisions inserted on the disclosure of income tax information by certain companies and branches, in the context of the transposition of the EU CBCR Directive.

6. PENSIONS & PEPP

There were no notable developments in this area during 2023.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

GloBE Act

During 2023, preparations took place in order to transpose BEPS Pillar 2 (the OECD Global Anti-Base Erosion Rules, GloBE) into national law. To this end, there was a consultation on creating a law on the minimum taxation of large groups of companies (GloBE Act) and an amendment to the law on state and municipal taxes (SteG). Liechtenstein has been a member of the Inclusive Framework on BEPS since 2016.

New Developments in the area of Double Taxation Agreements

During 2023, there were a number of developments to the Liechtenstein double tax treaty network. Double taxation agreements with Ireland, Estonia and Latvia were initialised. In addition, a double taxation agreement with Italy was signed and a DTA with Romania was ratified.

Review of the AEOI, FATCA und CBC Acts

Reviews of the legislation in the areas of the automatic exchange of information, the Foreign Account Compliance Act and the Country-By-Country Reporting were conducted to specify responsibilities specifically for Liechtenstein trusts.

Peer Review of the Automatic Exchange of Financial Account Information

In Q2 2023, there was an OECD onsite visit as part of the effectiveness assessment for the ‘Global Forum Peer Review of the Automatic Exchange of Financial Account Information’. The authorities involved in the automatic exchange of information were primarily required to present their processes and compliance strategies and demonstrate the effectiveness of their systems. However, the on-site visit also included meetings with financial industry representatives, among others the LAFV and a number of its members.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There were no notable developments in this area during 2023.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Publications

LAFV creates a newsletter for the wider public - LAFVAktuell - also serves as a platform for association members to present their insights on a wide range of themes. As well as this, there is a quarterly newsletter dedicated to regulatory developments available exclusively to LAFV members.
In addition, a set of general information sheets describing the broader legal and governance framework in place in Liechtenstein is available on the LAFV website and updated on a regular basis.

Steering committees and cooperation with authorities

With a view of monitoring regulatory developments and trends at European level, a steering committee (Konsultationsgruppe Finanzmarktregulierung) examines and analyses the entire spectrum of EU financial market regulation relevant to the Liechtenstein financial marketplace. This committee is comprised of representatives of all financial sectors along with certain government agencies, the EEA Coordination Unit and the FMA.
In taxation, similar steering committees exist in areas such as double taxation agreements. In addition, when specific focus on certain issues is warranted, there are ad hoc workstreams organised by the Liechtenstein tax administration, such as in the area of the automatic exchange of information (AEOI) in tax matters or other international agreements.

International contex

Although Liechtenstein has no sovereign debt and has received an AAA rating from S&P Global Ratings, the intention is to join the IMF. An IMF delegation visited Liechtenstein at the end of 2023 and spoke with all relevant institutions. In this context, the LAFV also presented the Liechtenstein fund industry.

LUXEMBOURG COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Luxembourg (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	4,718.9	4,973.8	5,859.5	5,028.5	5,285.0
Funds domiciled abroad and promoted by national providers					
Total net assets	4,718.9	4,973.8	5,859.5	5,028.5	5,285.0

Table 2: Net Sales of Investment Funds in Luxembourg (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	133,748.0	149,621.0	394,226.0	-167,942.0	-68,207.0
Funds domiciled abroad and promoted by national providers					
Total net sales	133,748.0	149,621.0	394,226.0	-167,942.0	-68,207.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	1,350.1	1,541.8	2,013.9	1,591.6	1,695.8
Bond funds	1,295.6	1,305.1	1,369.1	1,108.9	1,159.5
Multi-asset funds	786.2	772.1	931.7	798.7	791.4
Money market funds	342.0	387.2	419.1	414.4	490.3
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	146.9	152.2	190.7	164.2	154.3
Total	3,920.8	4,158.4	4,924.5	4,077.7	4,291.3
of which ➤ ETFs	220.8	237.5	322.8	280.2	338.5
➤ Funds of funds	136.6	142.4	177.6	153.4	145.5

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-30,598.0	71,151.0	185,327.0	-73,613.0	-79,516.0
Bond funds	125,832.0	25,018.0	46,277.0	-109,857.0	-8,479.0
Multi-asset funds	-289.0	-8,911.0	82,455.0	-17,384.0	-55,615.0
Money market funds	9,144.0	49,924.0	12,439.0	-13,644.0	77,594.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	1,198.0	2,527.0	21,203.0	-4,185.0	-19,878.0
Total	105,287.0	139,709.0	347,701.0	-218,683.0	-85,894.0
of which ➤ ETFs	23,796.3	17,191.3	29,616.0	1,695.1	27,744.6
➤ Funds of funds	1,921.0	2,635.0	19,401.0	-615.0	-18,163.0

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	78.9	77.3	87.2	72.6	73.5
Bond funds	115.3	107.8	106.0	90.3	93.8
Multi-asset funds	195.0	191.9	210.2	197.7	205.5
Money market funds	21.3	27.2	24.4	21.1	26.2
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	84.2	93.5	110.8	137.4	133.7
Other funds	303.4	317.5	396.4	431.6	461.0
Total	798.1	815.4	935.0	950.7	993.7
of which ➤ ETFs					
➤ Funds of funds	134.0	140.9	176.7	185.5	206.9
➤ Institutional funds	589.5	610.5	698.6	715.8	746.0

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	3,861.0	470.0	-1,457.0	-6,636.0	-3,045.0
Bond funds	-2,332.0	-4,919.0	-4,678.0	3,986.0	2.0
Multi-asset funds	4,505.0	-7,692.0	780.0	9,918.0	-1,252.0
Money market funds	1,838.0	2,373.0	-4,044.0	-3,574.0	5,017.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	10,293.0	8,425.0	12,389.0	20,563.0	-3,519.0
Other funds	10,296.0	11,255.0	43,535.0	26,484.0	20,484.0
Total	28,461.0	9,912.0	46,525.0	50,741.0	17,687.0
of which ➤ ETFs					
➤ Funds of funds	8,944.0	756.0	23,359.0	15,666.0	16,348.0
➤ Institutional funds	29,877.0	8,266.0	42,078.0	54,145.0	14,332.0

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	10,364	10,163	10,142	10,130	9,934
Home-domiciled AIFs	4,444	4,427	4,303	4,192	4,047
Foreign funds registered for sales	1,677	1,850	2,110	2,390	2,564
➤ By national promoters					
➤ By foreign promoters					
Fund launches	130	116	107	75	97
Fund liquidations	292	251	226	190	200
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

CSSF: AIFM reporting dashboard

On 18 October 2023, the CSSF published a report entitled 'AIFM reporting dashboard', built on AIFMD data available at the end of 2022.

The report's executive summary provides, among other things, the following market overview (note: abbreviations are listed under point 6):

- 8,172 AIFs managed by Luxembourg AIFM account for a total NAV of EUR 1.869 billion (excluding AIFs under the National Private Placement Regime).
- The Luxembourg AIFM sector is concentrated (48% of NAV is concentrated in 4% of the largest AIFs).
- AIFs are, on average, smaller than UCITS (64% of AIFs managed by LU AIFMs with NAV < EUR 100 million).
- The Luxembourg AIFM sector has grown in 2022, despite the current economic climate (AIFs are up by 22% in terms of total NAV). Advances were recorded in all AIF strategies - PEQF (+29%), HFND (+23%), REST (+20%), FOFS (+16%), OTHR (+22%). Meanwhile, quarterly growth statistics show a progressive slowdown over the year (except for OTHR AIFs).

- Private equity funds continue to be the dominant strategy on the Luxembourg AIF market (27%), reaching a new high of total NAV (EUR 503 billion). Other strategies such as FOFS, traditional AIFs (Equity and Fixed Income AIFs) or REST are relatively similar in terms of market shares. HFND remain small in Luxembourg.

AIFM reporting: new communication means since 2 November 2023

The CSSF worked in 'codesign mode' with pilot entities from the industry in order to allow managers of AIFs to transmit their AIFM reporting through an API solution (S3 technology). Since 2 November 2023, AIF managers are able to report using this new approach. Transmission of AIFM reporting through external transmission channels will remain possible until 30 June 2024.

A dedicated webinar in order to present the corresponding details was held in October.

CSSF: update of CBDF FAQ on notification procedures

On 16 March 2023, the CSSF published an updated version of its FAQ on CBDF notification procedures. The following questions were modified:

- Questions 1 and 3 a) / 3 b) in the section on UCITS notifications.
- Questions 2 and 3 a) / 3 b) in the section on AIFM notifications.

5.2. MiFID II

On 13 October 2023, the CSSF published its **Circular 23/841**, informing the market on its application of the ESMA guidelines on certain aspects of the MiFID II remuneration requirements issued by ESMA on 3 April 2023. The CSSF stated that it has integrated the guidelines into its administrative practice and regulatory approach with a view to ensuring regulatory convergence at European level.

On 25 October 2023, the CSSF issued a '**Communiqué on the Common Supervisory Action**' (CSA), which had been announced by ESMA at the beginning of October. The CSA concerns the integration of sustainability requirements in the MiFID II suitability assessment and product governance processes and procedures by credit institutions and investment firms. The CSA covers the following aspects:

- How firms collect information on their clients' sustainability preferences.
- Which arrangements have been put in place by firms to understand and correctly categorise investment products with sustainability factors for the purpose of the suitability assessment.
- How firms ensure the suitability of an investment for sustainability (including the use of a 'portfolio approach').
- How firms specify any sustainability-related objectives with which a product is compatible, as part of the target market assessment of the investment product.

ESMA and the NCAs will carry out the CSA during 2024. The CSSF announced that it will contact a sample of supervised entities as part of this.

5.3. CSDR

Allocation of penalties to end clients was disturbed by issues encountered upstream in the process by CSDs, as most of them were unable to assess the penalties in a streamlined fashion. In line with its guidance paper published in December 2021 ahead of the SDR kick-off, the ALFI-preferred model is to allocate both credits and debits at fund level.

In terms of cash management, asset managers will face difficulties in coping with the liquidity gap between the investment date in US securities (T+1) and the fund's settlement date (typically T+3), combined with FX funding in particular. A move to T+1 does not provide any direct benefits to asset managers. ALFI has therefore advocated forbearance from the policy makers as regards the likely crossing of the UCITS Directive cash/borrowing limits, specifically due to the T+1 impacts.

5.4. EMIR

The main challenges are operational. No detailed feedback has yet been received.

5.5. ELTIF

There are 65 ELTIFs in Luxembourg, which remains a market leader in this field. The removal of restrictive measures under Level 1 should be beneficial for maintaining an attractive framework in the future.

5.6. Sustainable finance

CSSF launched SFDR, SFDR RTS, TR data collection exercise

On 24 March, the CSSF published a Communiqué on the next step of their data collection exercise on requirements under Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), and Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (TR). Such exercise also covers Commission Delegated Regulation (EU) 2022/1288 supplementing SFDR as amended (SFDR RTS). Focus is particularly put on sustainability-related information in precontractual product disclosures in accordance with SFDR, SFDR RTS and TR.

The CSSF has published a user guide containing clarifications on the content and the format of the information to be reported, as well as technical details on the data collection process.

The CSSF further informed that after the initial declaration, financial market participants in scope of the data collection remain responsible for ensuring that the information provided is being kept up-to-date.

Update of CSSF SFDR FAQ

On 13 March 2023, the CSSF issued an update to their FAQ on the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088 – SFDR). This addresses the following topics:

- Q7: Use of ESG and/or sustainability related terminology in fund names.
- Q8: Disclosure of methodology used to define sustainable investments.
- Q9: Efficient portfolio management techniques for funds disclosing under Article 9 SFDR.

Questionnaire from the CSSF for Investment Fund Managers – SFDR-related information

The CSSF launched a data collection exercise on SFDR requirements for the integration of sustainability risks. Most notably, this looks at human resources and governance, investment decisions or advice processes, remuneration policies and risk management policies and the management of conflicts of interest.

The CSSF has therefore required all Luxembourg-domiciled UCITS management companies, self-managed investment companies, authorised AIFMs, managers of EuVECA funds and managers of EuSEF funds, to complete a questionnaire through the eDesk module as of 2 February 2023. The deadline for submission was 2 March 2023. After the initial declaration, IFMs will be required to notify the CSSF through a specific update function in case of changes to the information initially provided.

CSSF issues supervisory priorities in Sustainable Finance

On 6 April 2023, the CSSF published its supervisory priorities in sustainable finance. For asset managers, these are comprised of:

(i) organisational arrangements of IFMs, including the integration of sustainability risks by financial market participants
(ii) verification of the compliance of pre-contractual and periodic disclosures
(iii) verification of the consistency of information in fund documentation and marketing material
(iv) verification of the compliance of product website disclosures
(v) portfolio analysis, i.e. compliance with the ESMA Supervisory Briefing of 31 May 2022 to ensure that portfolio holdings reflect the name, investment objective, strategy and characteristic displayed in the documentation to investors.

CSSF data collection exercise regarding SFDR periodic reports
On 30 June, the CSSF issued a Communiqué on the next step of its data collection exercise for the disclosures in periodic reports for financial products disclosing under Articles 8 or 9 of the SFDR. On that basis, FMPs (Financial Market Participants), for each financial product in the scope as defined above, are required to provide a set of information relating to disclosures in periodic reports, included in the annual reports issued as from 1 January 2023 and with a financial year-end on or after 30 September 2022.

Accordingly, the aforementioned information shall be submitted to the CSSF at the latest five months after financial year-end for UCITS and seven months for AIFs and IORPs, respectively.

A user guide with clarifications on the content and the format of the information to be reported, as well as technical details on the data collection process, are available at SFDR UCI periodic data collection – Practical and technical guidance.

This data collection exercise will be extended in the future to collect information contained in the PAI statements. Further details on timing and practical proceeding of this extended data collection will be communicated at a later stage.

CSSF - Taxonomy Regulation Disclosures by Issuers
On 18 December 2023, the CSSF published a report on the results of a examination of corporate reporting practices on taxonomy regulation disclosures by issuers.

As per the Taxonomy Regulation, in 2023, nonfinancial issuers are required to disclose, for the first time and for the financial year 2022, the taxonomy eligibility, as well as the alignment of their economic activities with the first two environmental objectives set out in the Taxonomy Regulation: climate change mitigation and climate change adaptation.

In 2023, the CSSF examined **taxonomy reporting** to evaluate the quality of the disclosures provided by non-financial issuers under the new requirements of the Taxonomy Regulation. The report includes the summary of the main findings of this review.

The main findings by the CSSF concern:

- the assessment of eligible and aligned economic activities
- the reporting of quantitative information: use of the mandatory templates, KPIs reporting and calculation
- the reporting of qualitative information: accounting policy, assessment of compliance, disclosure of relevant contextual information
- the reporting on voluntary information on KPIs.

While reiterating that “ESMA has set the disclosures to be reported by issuers relating to Article 8 of the Taxonomy Regulation as its first priority when it comes to non-financial statements disclosure requirements”, the CSSF has acknowledged that “this regulation is complex and that a certain learning and adaptation period is therefore expected”.

5.7. Stewardship
There were no significant developments during the period under review.

5.8. Benchmarks
There were no significant developments during the period under review.

5.9. Anti-Money Laundering

On 27 September 2023, the **FATF** published its fourth mutual evaluation report of Luxembourg. Being the result overall good, Luxembourg was placed under regular monitoring by the FATF, which corresponds to the best possible result following a mutual evaluation.

On 16 October 2023, the CSSF published its **Circular 23/842** adopting the EBA-revised guidelines on money laundering and terrorist financing risk factors, as a complement of Circular CSSF 21/789. On the same day, the CSSF also published its **Circular 23/843** adopting the EBA Guidelines on money laundering and terrorist financing risk factors when providing access to financial services.

5.10. Digital Finance & Cybersecurity

Digital Operational Resilience - CSSF Circular 24/847 on ICT-related incident reporting framework

On 5 January 2024, the CSSF published Circular 24/847 on the ICT-related incident reporting framework and the notification of ICT-related incidents in particular. The Circular aims at detailing, in a single uniform document, the process for classifying and reporting ICT-related incidents for all entities under CSSF supervision, in accordance with financial sector regulatory frameworks and/or with the NIS Law. In particular, it specifies the delays expected for providing the initial notification, further to ICT-related incidents being classified as *major*. The Circular is completed by detailed FAQ.

The Circular entered into force on 1 April 2024. Nevertheless, the Circular includes the provision of an additional delay of two months for its application as applied to management companies and other investment companies.

Digital Operational Resilience Act (DORA)

As an EU regulation, DORA is directly applicable to financial entities falling under the scope of DORA from 17 January 2025. However, the corresponding Directive (EU) 2022/2556 of the European Parliament and of the Council of 14 December 2022, the aim of which is to include in all financial sector directives a cross-reference to DORA, is in the process of being transposed into national law (draft law 8291). The draft law also designates the CSSF and the Commissariat aux Assurances (CAA) as the competent authorities in Luxembourg responsible for ensuring the compliance of their respective supervised entities with DORA, and defines their supervisory and enforcement powers.

On 25 March 2024, the CSSF launched a new webpage dedicated to the Digital Operational Resilience Act (DORA), which will be applicable to no less than 20 types of financial entities as of 17 January 2025. The objective of the webpage is to provide financial entities with an introduction to DORA and continuous updates on the latest developments.

5.11. Other regulatory developments

Changes to Luxembourg fund laws: publication of law in the Official Journal

On 24 July 2023, the new law changing the fund laws was published in the Official Journal of Luxembourg (Loi du 21 juillet 2023, only available in French).

The changes impact five sectoral laws, on SICARs, SIFs, RAIFs, UCI and AIFMs. They include an extension of the deadlines to reach the respective minimum capital, additional structuring options of UCI Part II funds, the possibility for AIFMs to use tied agents, a reduction in the minimum investment capital requirement from EUR 125,000 to EUR 100,000 to qualify as a well-informed investor, along with administrative simplifications.

From a tax perspective, new provisions have introduced subscription tax exemption regimes in the UCI, SIF and RAIF laws for ELTIFs and in the UCI law for PEPP funds. In addition, amendments to the existing sectoral laws clarify the subscription tax exemption regimes applicable respectively to funds of funds and to money market funds. The new provisions also align the subscription tax exemption for pension funds established under the UCI Part I law with the more flexible rules already applying to SIFs and RAIFs. The law entered into force on 28 July 2023.

PRIIPs: updated CSSF FAQs

On 28 December 2023, the CSSF updated its FAQ concerning the UCI Law and FAQ concerning the AIFM Law.

On PRIIPs, the following questions were repealed:

- Can Luxembourg AIFs, the units of which are being advised on, offered or sold to retail investors, benefit from the exemption provided under Article 32(2) of the PRIIPs Regulation if they have issued a UCITS KIID (hereafter referred to as 'UCITS-like KIID')?
- When do Luxembourg UCITS that replace their KIIDs by PRIIPs KIDs need to file such PRIIPs KIDs with the CSSF?
- Is it possible to draw up and file a PRIIPs KID instead of a KIID prior to 1 January 2023?

The following questions were added:

- Does a specific yearly timeline apply in connection with the annual update of PRIIPs KID for Luxembourg AIFs?
- Does a specific yearly timeline apply in connection with the annual update of PRIIPs KID for Luxembourg UCITS?
- When should the information on past performance be updated and published?

6. PENSIONS & PEPP

There were no significant developments over the period under review.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The **Luxembourg law transposing Council Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups** in the Union was approved in December 2023 and applies as of 1 January 2024. This law could have an impact on AIF structures in particular, and therefore a case-by-case assessment may be necessary.

The **Luxembourg law of 21 July 2023 introduced exemptions from subscription tax** for ELTIFs and for PEPPs in the Luxembourg funds laws.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

An awareness campaign, on the benefits of sustainable investing to protect the planet, was organised jointly in March 2023 by the CSSF, ALFI, ABBL and the Luxembourg Ministry for Consumer Protection.

21 ALFI registrants participated in '**Money Week'** in March 2023, to introduce financial awareness in primary schools.

In June, 2023, ALFI created a video on the activities of its Investor Forum, which - among other things - reflects on how to empower retail investors to make the right assessment when looking at sustainable products and on how to approach online investing.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Publications:

- Updated the ALFI Q&A document on the PRIIPs KID following the publication of ESA Q&As in November and December 2023.
- FAQs on certificates of Tax Residence for Luxembourg Investment Funds.

- SFDR Guidelines for Luxembourg.
- Considerations on Investment in Virtual Assets.
- Private debt brochure.
- Flyer on ten reasons for a private debt fund.
- VAT exemption for management services.
- ELTIF 2.0. brochure.
- Brochure on Luxembourg private equity and venture capital.
- Real estate fund survey 2023.
- ALFI considerations on marketing and distribution.
- ALFI considerations on Securities Settlement in the US.
- Considerations on the use of in-kind transactions on ETF primary markets.
- ALFI Data Protection considerations in the context of CRS.

Conferences, seminars and webinars

- Webinar on the European ESG Template (February 2023).
- ALFI European Asset Management Conference (March 2023).
- Webinar on the T+1 Securities Settlement in the US: impact for asset managers (April).
- ALFI Expert briefing on ELTIF (April 2023).
- Presentation on key findings of the survey on cryptoassets management (May 2023).
- ALFI European Risk Management Conference (June 2023).
- Seminar on Hedge Funds and Liquid Alternatives (June 2023).
- ALFI market update for Asia (June 2023).
- Sustainability Risks webinar (July 2023).
- ALFI Global Distribution Conference (September 2023).
- DORA webinar (October 2023).
- ALFI London Conference (October 2023).
- Seminar on Taxes for Investment Funds (October 2023).
- Expert Briefing on the Oversight of ESG Investments (November 2023).
- Expert Briefing on the IOSCO/FSB work on liquidity management tools (November 2023).
- ALFI Private Assets Conference (November 2023).

Videos/podcasts

- Podcast on key findings of the KPMG/ALFI Survey on Private Debt Funds (January 2023).
- Data from the Real Estate Investment Market in 2022 (January 2023).
- Various videos on the ALFI Technical Committees and Fora

MALTA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	15.9	15.0	20.5	19.8	19.8
Funds domiciled abroad and promoted by national providers					
Total net assets	15.9	15.0	20.5	19.8	19.8

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	1,080.4	-13.0	3,549.7	-229.4	-177.8
Funds domiciled abroad and promoted by national providers					
Total net sales	1,080.4	-13.0	3,549.7	-229.4	-177.8

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	0.3	0.4	0.5	0.4	0.5
Bond funds	1.4	1.2	1.5	1.2	1.2
Multi-asset funds	0.7	0.4	0.4	0.3	0.4
Money market funds	0.04				
Guaranteed/protected funds					0.02
Absolute Return Innovative Strategies (ARIS) funds	0.01	0.01	0.01	0.003	
Other funds	0.7	0.7	0.9	0.8	0.8
Total	3.1	2.7	3.4	2.8	2.9
of which ➤ ETFs					
➤ Funds of funds	0.01	0.01	0.02	0.02	0.03

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	21.7	41.7	52.9	2.6	-8.0
Bond funds	134.6	-20.2	35.0	-102.1	-38.1
Multi-asset funds	-31.4	-58.9	23.4	-58.9	6.2
Money market funds	-9.4	-13.3			
Guaranteed/protected funds					15.0
Absolute Return Innovative Strategies (ARIS) funds	0.7	-0.4	0.9	-3.2	
Other funds	38.9	2.2	61.5	-10.8	-35.1
Total	155.1	-48.8	173.8	-172.4	-60.0
of which ➤ ETFs					
➤ Funds of funds	2.9	1.5	13.6	-3.3	-1.7

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	2.3	2.2	3.3	3.1	3.0
Bond funds	0.6	0.8	0.6	1.2	1.3
Multi-asset funds	0.4	0.3	0.4	0.5	0.5
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.01	0.005			
Real estate funds	0.7	0.7	1.0	1.0	1.1
Other funds	8.8	8.3	11.8	11.2	11.0
Total	12.8	12.3	17.1	17.0	16.9
of which ➤ ETFs					
➤ Funds of funds	2.3	3.1	6.3	6.0	5.3
➤ Institutional funds	12.4	11.8	15.7	15.1	14.8

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds	-69.7	-155.4	1,194.1	77.5	317.2
Bond funds	-102.0	145.4	135.9	125.4	-76.4
Multi-asset funds	46.5	68.8	92.2	152.9	-40.6
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.5	-3.2			
Real estate funds	226.1	-1.7	187.0	2.0	12.9
Other funds	823.8	-18.1	1,766.8	-414.8	-330.9
Total	925.3	35.7	3,375.9	-57.0	-117.8
of which ➤ ETFs					
➤ Funds of funds	908.7	59.5	1,833.6	-293.5	-314.7
➤ Institutional funds	792.2	-48.1	2,504.2	-862.9	-195.8

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	**2020**	**2021**	**2022**	**2023**
Home-domiciled UCITS	106	109	117	114	112
Home-domiciled AIFs	547	476	478	443	401
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	77	49	85	48	32
Fund liquidations	111	119	75	86	76
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

The net asset value of Malta-based funds reached EUR 19.8 billion at the end of 2023, marking a modest increase of 0.7% compared to the previous year. UCITS funds witnessed a 5.6% increase in net assets, from EUR 2.8 billion in 2022 to EUR 2.9 billion in 2023. Non-UCITS funds maintained a steady net asset value of EUR 16.9 billion throughout 2023. Although Malta-based funds continued to experience net outflows during the year, the magnitude of these decreased compared to 2022, dropping from net outflows of EUR 600 million in 2022 to EUR 282 million in 2023.

UCITS Assets and Net Sales

All categories of UCITS funds saw their net assets grow compared with the previous year. Equity funds showed the largest gain with 15.6%, from EUR 0.4 billion in 2022 to EUR 0.5 billion in 2023. Multi-asset funds enjoyed an increase of 13.7% in net assets, from EUR 0.3 billion in 2022 to EUR 0.4 billion in 2023.

In 2023, UCITS funds saw net outflows totalling EUR 66.9 million, down from the EUR 171.3 million net outflow recorded in 2022. Bond funds experienced the most significant net outflows, amounting to EUR 38.1 million in 2023. At the same time, guaranteed/protected UCITS funds and multi-asset UCITS funds recorded net inflows of EUR 15 million and EUR 6.2 million, respectively, during the same period.

Non-UCITS Assets and Net Sales

Non-UCITS funds recorded a net asset value of EUR 16.9 billion at the end of 2023, down 0.1% on the previous year. Among non-UCITS funds, equity funds saw the most substantial increase in net assets in 2023, surging by 25.6% from EUR 2.4 billion in 2022 to EUR 3 billion. 'Other' non-UCITS funds dominated the fund types, comprising 65% of total net assets, followed by equity funds at 18% and bond funds at 8%.

Non-UCITS funds reported net outflows of EUR 215 million in 2023, compared to net outflows of EUR 428 million in the previous year. 'Other' non-UCITS funds experienced the largest net outflows, amounting to EUR 435 million. Equity non-UCITS funds meanwhile saw net inflows of EUR 317 million during the same period.

Number of funds

The number of Malta-based funds decreased from 557 at the end of 2022 to 513 by the end of 2023. There were 112 UCITS funds and 401 non-UCITS funds at the end of 2023, with 32 newly issued funds and 76 funds were liquidated.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

There were several regulatory and supervisory developments on UCITS and AIFs in 2023. These focused on various aspects including:

- **Cross-border distribution of funds**
  Many jurisdictions introduced or amended regulations on the cross-border distribution of funds. These changes aimed to streamline and facilitate the distribution process, ensuring compliance with the latest EU Directives such as UCITS and AIFMD.

- **Loan origination funds**
  There were updates in regulations for loan origination funds, particularly in jurisdictions where such funds are gaining prominence. Authorities focused on ensuring transparency, risk management and investor protection within this segment.

- **Liquidity management**
  The MFSA has also implemented measures to enhance liquidity management practices within the UCITS and AIFs frameworks. This included stricter guidelines on liquidity risk management, stress testing, as well as on liquidity reporting requirements.

- **Delegation practices**
  The Malta Financial Services Authority (MFSA) scrutinised delegation practices more closely, particularly those areas on the outsourcing of portfolio management and other key functions. The MFSA emphasised the importance of effective oversight and governance structures to mitigate the risks associated with delegation arrangements.

- **Supervisory reporting**
  Updates were made to the supervisory reporting requirements, with the aim to enhance data quality and transparency. In order to improve the monitoring and supervision of both UCITS and AIFs, the MFSA has improved data collection methods by establishing standardised reporting templates.

- **Undue costs**
  Allegations of undue costs remained an area of concern. The MFSA conducted reviews and assessments in order to identify instances where investors may have been subject to excessive fees or charges. Measures were taken aimed at enhancing fee disclosure requirements and ensuring that fund expenses were reasonable and justified.

Throughout 2023, the UCITS and AIFs framework overall saw significant developments aimed at strengthening investor protection, improving operational efficiency and ensuring compliance with evolving regulatory standards both at national and EU levels.

Through the ESMA's Common Supervisory Action on valuation practices the MFSA reached several interesting findings. These shed light on the effectiveness of valuation practices within the Maltese financial services industry and provide insight into areas for improvement.

6.2. MiFID II

Review and MiFID II Review, please see circular issued by the MFSA on 5 April 2024; https://www.mfsa.mt/publications/circulars/investment-services-supervision/mifid-and-mifir/. It should be noted that the MFSA has not issued any obligations over and above those regulatory requirements stipulated in MiFID II.

On the templates, the use of FinDataEx EMT has been of limited use in Malta, as most of distributors do not have a direct relationship with the fund houses; the information is usually gathered from public sources (for example, Bloomberg). Again, the use of the ESG template has not been applied in practice as there are limited sustainable products issued in Malta.

6.3. CSDR

To date, the MFSA has not needed to put the cash penalties requirement into practice, given that our local market has not been exposed to material settlement fails.

Our local market follows the European T+2 settlement, as mandated by both the CSDR and the T2S Settlement System. However, there were no local initiatives to shorten the settlement cycle, as our market is not complex and the preliminary indications are that the CSD would have all the capabilities to adopt were a requirement to be mandated at European level.

6.4. EMIR

The MFSA is currently assessing the readiness of local counterparties via thematic reviews. That said, the MFSA has sought to keep the industry updated through the periodic publication of circulars on the EMIR Refit.

6.5. ELTIF

To date, there has been limited interest in ELTIFs and therefore it is too early to determine whether to anticipate more investments from retail investors. However, the revision of the ELTIF Regulation, as well as the draft RTS for the ELTIF Regulation, indicates a likely increase in investor protection, in particular:

- the circumstances under which the life of the ELTIF is aligned with the profile of the individual assets, as well as different features of the redemption policy of the ELTIF
- the circumstances for using the matching mechanism; in other words, the possibility of full or partial matching (before the end of the life of the ELTIF) for transfer requests of units or shares of the ELTIF by exiting ELTIF investors with transfer requests by potential investors
- costs disclosure.

6.6. Sustainable finance

The MFSA, as the local financial regulator and NCA, issued an initial study on sustainability-related website disclosures. This placed greater emphasis on the need to consider ESG considerations, particularly climate change-related risks in business activities, and has highlighted these as key priorities in their supervisory mandates.

From an early stage, the MFSA has communicated its expectations for the SFDR legal framework by means of various circulars (in particular, in the MFSA Report of 12 April 2022 on Operational and Compliance Readiness by Financial Market Participants and Financial Advisers). It has emphasised that entities must take the necessary steps to ensure compliance and enhance their operational preparedness in complying with the SFDR requirements.

The MFSA had carried out a supervisory analysis to assess the extent to which the website disclosures of licence holders comply with the SFDR requirements. This analysis was based on the information reported by FMPs and FAs in the context of MFSA's 2021 self-assessment questionnaire as well as desk-based reviews of the disclosures by a sample of licence holders on their websites between September and December 2022.

On 18 August 2023, the NCA published the adoption of the Final Delegated Act on the First Set of European Sustainability Reporting Standards (ESRS). This saw the European Financial Reporting Advisory Group appointed as the technical adviser to the European Commission for developing the ESRS.

The NCA reminded companies within scope of the CSRD that they will be required to start reporting under ESRS as of the 2024 reporting period. Some 49,000 entities are expected to be impacted by this reporting requirement; it will therefore have a significant influence on sustainability reporting.

The NCA has launched a survey to assess stakeholders' experience and views in dealing with the disclosure and reporting requirements arising from the European Union Sustainability Disclosures and Reporting (EU SDFR) regime. Throughout the survey, EU SDFR was used to refer to the following main legislative documents:

- EU Taxonomy Regulation
- Sustainable Finance Disclosure Regulation (SFDR)
- Non-Financial Reporting Directive (NFRD) and Corporate Sustainability Reporting Directive (CSRD)
- EU Benchmarks Regulation
- Green Bond Standard Regulation
- Amendments to the Capital Requirements Regulation.

This survey seeks to gauge the current state of awareness and readiness of key stakeholders on the requirements of sustainable finance disclosure and reporting, and the challenges and opportunities arising from the implementation of these requirements. The experiences of asset managers - in terms of the ESG ratings needed for reporting and disclosure purposes - will be published by the NCA once outcomes are submitted by financial stakeholders.

6.7. Stewardship

It is pertinent to mention the developments around the Notified PIF, which was launched on 18 December 2023. Further information can be accessed from the circular issued by the MFSA: 'MFSA Launches Framework for Notified PIFs'. This framework specifically places the onus of due diligence on the due diligence service provider.

There is no evidence of obstacles in the exercise of shareholders' rights.

6.8. Benchmarks

Although there were no material regulatory developments at national level during 2023, the MFSA continued to work on enhancing its supervisory capacity in so far as sustainable finance is concerned. This was to ensure the effective implementation of sustainable finance-related obligations arising from the Benchmarks Regulation, should entities falling within its scope use or administer Paris-aligned or climate transition benchmarks. It also closely followed and contributed to the work being undertaken at European level vis-à-vis the review of the Benchmarks Regulation. On the revision of this Regulation, we do not foresee any major impact on the use of financial indices by investment funds within our jurisdiction. Based on data collated in Q4 2023, it appears that local market participants use significant and critical benchmarks, hence the removal of non-significant benchmarks will not affect them. The proposal is also aimed at creating a level playing field between benchmarks administered by EU administrators and those provided by third country administrators. This in turn would provide investment funds with a greater pool of indices.

It is also pertinent to note that the introduction of the AIFMD, which was published on 26 March 2024, introduced changes that allow AIFMs to offer two additional activities as non-core services. These are the administration of benchmarks and credit servicing. However, AIFMs cannot administer benchmarks applied within the AIFs that they manage.

6.9. Anti-Money Laundering

During 2023, the FIAU issued a guidance note on the Obligation of Transaction Monitoring and another guidance note on Mononymous Natural Persons. The FIAU have also issued a Q&A on the AML/CFT Obligations in relation to Investment Services Providers. In October 2023, the FIAU, along with the MFSA, issued a Guidance Note in relation to the Israeli- Palestinian Conflict. During Q4 2023, the FIAU also issued a consultation - until the end of the year - for the draft Implementation Procedures Part 2, specific to Investment Services Providers. Meanwhile, the FIAU have performed a thematic review on the application of simplified due diligence for nominee investors in collective investment schemes. This guidance - following the reviews and the Implementing Procedures Part 2 - should be issued in the coming months of 2024.

6.10. Digital Finance & Cybersecurity

On 27 March 2023, the NCA published a study focusing on the Digital Transformation and Financial Technology (FinTech) Adoption within the Maltese Financial Services Sector. In line with the NCA's mandate for monitoring, understanding and assessing the developments and implications of the use of FinTech in financial services, particularly in Malta, the study sheds light on the status of digital transformation and FinTech adoption within the Maltese financial services sector. It also assessed the factors contributing to these developments locally and the perceived risks that arise from such enabling technologies and innovations.

The study identified that the main enabling and innovative technologies adopted within the Maltese financial services landscape were cloud computing, Application Programming Interfaces (APIs) as well as web and mobile applications. Cloud computing was mostly prevalent among insurance intermediaries, APIs among financial institutions, while for investment funds it was web and mobile applications. It is noted that the FAS provides a more in-depth analysis, including the types of applications, stage of adoption, deployment time and ownership of the technological solutions for each technology.

The NCA also hosted, on 23 May 2023, a comprehensive workshop on Artificial Intelligence (AI), providing an overview of this transformative technology, coupled with a case study on credit risk management. The workshop also delved into common terms associated with AI, most notably Machine Learning (ML) and Deep Learning (DL). ML systems can analyse historical data, detect patterns and learn from past experiences in order to make predictions without the need for explicit programming. In addition, DL employs deep neural networks with multiple layers to comprehend and decipher intricate data patterns.

6.11. Other regulatory developments

The revised AIFMD, published on 26 March 2024, will have a material impact on the fund industry in general. The main changes are as follows:

- Substance and delegation: In terms of substance, the Directive puts - as a condition for granting authorisation – a requirement for a minimum of two individuals in full-time employment and domiciled in the EU who decide on the conduct of the business.

- Loan origination: The regimes differ depending on whether the AIFs merely originate loans or whether the AIFs originate loans on a significant basis (loan-originating AIFs). Most of the loan origination provisions will apply to all AIFs when originating loans, with some additional provisions applying specifically to loan-originating AIFs.

- Liquidity management tools: One notable change for AIFMs managing open-ended AIFs is the requirement to select at least two additional liquidity management tools from a specified list. This follows consideration of the investment strategy, the liquidity profile and the redemption policy of the AIF. ESMA has been mandated to issue guidelines in relation to liquidity management.

- Depositary provisions: The revised text introduces an important change on the appointment of the depositary and the requirement for them to be domiciled in the AIF's Member State. The home Member State of the

AIF can allow institutions established in another Member State to act as depositary for the AIF, subject to a number of conditions, namely:

- A reasoned request from the AIFM demonstrating the lack of depositary services in the AIF's home Member State capable of effectively meeting the AIF's needs considering its investment strategy.
- The total value of assets entrusted for safekeeping in the national depositary market of the AIF's home Member State, managed by EU AIFMs, should not exceed EUR 50 billion.

This development in particular is expected to have a positive impact, by providing a wider choice of depositaries for existing and new AIFs. This could also potentially lead to lower costs in the depositary business.

7. PENSIONS & PEPP

The MFSA is not aware of any new pension-related regulatory/supervisory developments likely to have a direct or indirect impact on fund and/or asset management. It is pertinent to note that - as a general update during 2023 - a consultation process was commenced covering the proposed amendments to the pension rules for personal retirement schemes, occupational schemes and the relevant service provider rules.

In relation to PEPP, there have been no material developments and no new license applications to manufacture / distribute a PEPP has been received by the Authority. This is presumably in line with take-up across the EU.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Note that new VAT rules have been issued, which impact applicability on depositaries, custodians and fund managers. Essentially, Legal Notice 231 of 2023 introduces a reduced tax rate of 12% in the case of custody and management of securities. In addition, on 12 March 2024, the Tax & Customs Administration also issued supplementary guidelines on applying the 12% rate on the supply of management of securities which, *inter alia,* clarifies where a reduced rate applies and which custody services may be subject to a full exemption from VAT. Details are available in the communication issued by the Tax & Customs Administration at 'Guidelines - Management of securities 12 percent VAT Rate.pdf (gov.mt)'.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In 2023, there were no updates within the educational system on financial literacy. However, it is common for governments and financial institutions to periodically introduce new initiatives or programmes aimed at promoting financial literacy among citizens. These may include educational campaigns, workshops, online resources or partnerships with schools and community organisations. Furthermore, the 'Gemma – Financial Capability' campaign continued efforts to educate the younger generation on financial services.

10. OTHER ACTIVITIES OF THE ASSOCIATION

In 2023, MASA undertook various initiatives, including:
Hedgeweek Malta Report: In collaboration with Hedgeweek, MASA published a report entitled: 'Malta in Focus 2023' focusing on Malta as a fund jurisdiction. The report includes articles submitted by our members and can be accessed online: https://www.hedgeweek.com/malta-in-focus-2023/.

MASA newsletter: During 2023, we launched a newsletter via our LinkedIn page.
Industry Training: MASA organised a number of training courses, including a funds operations course covering all aspects of investment funds for those working in the industry, as well as Compliance and AML-related training.

In addition, we actively participated in and spoke at numerous events, both locally and abroad, including:

- the MFSA half-day ESG seminar
- the FIAU 2023 ML/CFT Conference for the Investment Services Sector (Malta)
- the 9th International Funds Summit & EXPO: Insights for 2024 (Cyprus).

Our Chairperson, Anabel Mifsud, also recorded FinTalks a podcast together with Finance Malta, in an episode entitled 'Malta: Adapting to remain an Attractive Fund Jurisdiction'.

NETHERLANDS COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Netherlands (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	947.5	998.7	1,036.1	773.0	826.3
Funds domiciled abroad and promoted by national providers					
Total net assets	947.5	998.7	1,036.1	773.0	826.3

Table 2: Net Sales of Investment Funds in Netherlands (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	-34,882.0	10,242.0	-156,716.0	-181,337.6	-21,551.7
Funds domiciled abroad and promoted by national providers					
Total net sales	-34,882.0	10,242.0	-156,716.0	-181,337.6	-21,551.7

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	28.2	23.9	32.0	48.7	58.3
Bond funds	11.0	10.3	8.7	18.5	19.6
Multi-asset funds	4.0	4.8	6.4	0.3	0.3
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.1	0.8	0.7	3.4	3.6
Total	43.2	39.7	47.8	70.9	81.9
of which ➤ ETFs	1.8	0.8	1.7	1.4	1.9
➤ Funds of funds	1.9	2.0	2.1		

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	957.0	-5,158.0	70.0	-2,560.2	-555.9
Bond funds	-1,247.0	-991.0	-1,342.0	2,197.4	197.0
Multi-asset funds	1,181.0	466.0	1,198.0	50.1	-20.0
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	366.0	435.0	242.0	240.9	32.8
Total	1,257.0	-5,248.0	168.0	-71.7	-346.2
of which ➤ ETFs	-171.0	-727.0	325.0	76.0	328.8
➤ Funds of funds	-39.0	-26.0	-113.0		

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	364.3	386.8	417.2	184.9	201.0
Bond funds	190.1	175.4	135.1	84.3	77.8
Multi-asset funds	21.5	40.0	48.8	50.4	70.1
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	129.1	126.0	136.9	122.8	117.4
Other funds	199.3	230.9	250.2	259.7	278.2
Total	904.3	959.1	988.3	702.1	744.4
of which ➤ ETFs	0.3				
➤ Funds of funds	183.1	203.9	264.6		
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-7,114.0	-5,522.0	-70,025.0	-164,874.8	-17,334.3
Bond funds	-44,099.0	-13,973.0	-55,093.0	-21,682.8	-18,481.2
Multi-asset funds	1,375.0	16,023.0	1,907.0	8,676.3	5,506.6
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	-792.0	7,967.0	-15,410.0	-12,466.3	1,388.7
Other funds	14,491.0	10,995.0	-18,263.0	9,081.7	7,714.8
Total	-36,139.0	15,490.0	-156,884.0	-181,265.8	-21,205.4
of which ➤ ETFs	154.0	-170.0	21.0		
➤ Funds of funds	5,428.0	5,061.0	9,708.0		
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	93	93	82	102	95
Home-domiciled AIFs	1,655	1,666	1,418	1,509	1,523
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	176				176
Fund liquidations	158				169
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

- Significant withdrawals from Dutch investment funds by pension funds and insurance corporations, which will manage these amounts at their own discretion.
- A steady increase in mortgage loans on the investment funds assets side.
- Despite sales, investments in stocks rose in 2023 due to favourable market conditions.
- Investments in bonds have fallen, mostly due to sales in this asset class.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

UCITS and AIFMD

In 2023, there were no changes to the Dutch implementation of the UCITS Directive and AIFMD. Developments on the AIFMD/UCITS Directive review are being closely monitored. However, the Financial Markets Amendment Decree 2023 (*Wijzigingsbesluit financiële markten 2023*) proposes some technical adjustments to UCITS. These relate to, amongst others, the removal of the obligation to submit an annual audit report to the Authority for the Financial Markets (AFM)showing that the UCITS has acted in accordance with the investment restrictions and the introduction of a ban on unhedged short selling. The decision will probably take effect 1 July 2024.

Prudential reporting for asset managers

Following the Dutch implementation of IFR&IFD, AIFMD and UCITS, managers with a so-called 'MiFID top-up' are subject to Dutch Central bank (DNB) supervision in accordance with IFR&IFD legislation. In the past year, the DNB and the AFM have worked closely on the prudential supervision of such asset managers. The Dutch supervisory authorities also conducted the Supervisory Review and Evaluation Process (SREP) as a joint effort. The SREP guidelines issued by EBA and ESMA entered into force in 2023. This cooperation on prudential matters between AFM and DNB will continue in 2024, also based on a covenant they have concluded.

Furthermore, the DNB published a discussion paper on good practices for prudential reporting in Q4 2023. The rationale for these is that, for a while, the DNB has detected that prudential reports regularly contain (material) errors. Therefore, they stress the importance of receiving data of a sufficient quality. Their observations mostly relate to the FINREP and IFREP reporting.

6.2. MiFID II

There were no notable developments in this area during 2023.

6.3. CSDR

There were no notable developments in this area during 2023.

6.4. EMIR

There were no notable developments in this area during 2023.

6.5. ELTIF

Currently, no ELTIFs are active in the Netherlands, mostly due to the restrictive possibilities of creating funds under existing regulation.

6.6. Sustainable finance

In 2023, sustainable finance remained an important focus area for the Dutch asset management sector. This included all developments and consultations ensuing from the EU Sustainable Finance Action Plan and developments in reporting frameworks and other national initiatives.

DNB Guide to managing climate and environmental risks

In March 2023, the DNB published the 'Guide to managing climate and environmental risks' (*Gids voor de beheersing van klimaat- en milieurisico's*). It explains that financial institutions are required by law to manage material risks, including ESG risks such as climate and environmental risks. In their guide, DNB provides asset managers with, *inter alia*, focal points and good practices for managing climate and environmental risks. It outlines focal points for a financial institution's entire control process, from the business model and strategy to governance, risk management and disclosure.

AFM Guidelines on Sustainability Claims

On 4 October 2023, the Dutch financial markets authority, the AFM, published new guidelines on sustainability claims, specifically aimed at financial service providers and pension funds (*AFM Leidraad Duurzaamheidsclaims*). The purpose is to provide guidance to market participants on how to make correct, clear and non-misleading sustainability claims.

The guidelines provide a set of tools to comply with the existing information requirements, focusing on three principles. In essence, sustainability claims have to be (1) accurate representative and up to date; (2) specific and substantiated; and (3) understandable, appropriate and easy to find. The guidelines also include both 'good' and 'bad' practices.

Dutch Climate Commitment financial sector

In the summer 2019, over 50 financial institutions within the Dutch financial sector (banking, pension funds, insurers and asset managers) agreed to commit to the goals for the reduction of CO2 emissions, as formulated in the Dutch

Climate Commitment for the financial sector. In line with the commitment, the sector will report on the climate-related impact of financing and investments as of 2020, and the sector published their action plans in 2022, thus contributing to the achievement of the Paris climate objectives. In the commitment, DUFAS explained how asset managers will contribute to the realisation of climate goals.

- Asset managers support clients in achieving their ambitions and commitments on their climate impact by engaging with them, using their knowledge and by devising proposals on how investments can contribute to the implementation of the National Climate Agreement.
- Asset managers help clients with reports on their investments, which makes the climate impact transparent and measurable on the basis of global or European standards. These standards need to be developed; the Dutch asset manager sector, as a global leader in the field of ESG integration, sees an active role for itself here.
- Asset managers work on investment strategies for clients that contribute to the goals of the National Climate Agreement.

As in 2022, a progress report was prepared and facilitated by KPMG, as an independent expert, for 2023. This third progress report was finalised in November 2023 and submitted to the Dutch Minister of Finance, who in February 2024 subsequently offered this to the Dutch Parliament (*Tweede kamer*) in connection with the reporting on the climate commitment. The report seeks to highlight the actual climate impact of the financial sector, and in aims at gaining better insight into the CO_2 emissions.

In addition to the progress report, a new manual was developed in 2023. This *'Herziene leidraad Klimaatcommitment'* aims to provide clarity and an explanation of which elements belong in a climate action plan and to provide an explanation of measurements of the CO_2 content of financing and investments. The update is limited in its scope. For more information see: www.klimaatcommitment.nl

Consultation Climate measures financial sector

In December 2023, the Ministry of Finance published their consultation on the '*Klimaatregelen financiële sector*'. The is aimed at the question of whether national legislation is needed or desirable to accelerate the energy transition. In particular, the Ministry of Finance is investigating whether the voluntarily commitments by the financial institutions under the Dutch Climate Commitment for the financial sector should be transposed into national law.

CSRD

The Corporate Sustainability Reporting Directive (CSRD) covers large listed and private companies as well as listed SMEs. The majority of Dutch asset managers are part of larger corporate groups, which will be covered by CSRD. IN July, the Ministry of Finance – together with the Ministry of Justice and Security - launched the consultation on the national implementation of the CSRD. The consultation consists of two consecutive parts. The first concerns a bill (*Implementatiewet richtlijn duurzaamheidsrapportering)* on the requirements for accountants and audit firms if they audit this information. Transparency obligations for listed companies are also being expanded. The second consultation bill (*Implementatiebesluit richtlijn duurzaamheidsrapportering*), published in November from the Ministry of Justice and Security, was complementary to the above consultation and has addressed the broader transposition of the CSRD. CRSD implementation legislation have not been finalised as yet.

6.7.Stewardship

Dutch CSDD

On 1 November 2022, a coalition of Dutch MPs resubmitted the proposal: '*Wet verantwoord en duurzaam international ondernemen (Wvdio)'*. This legislation would cover similar topics as the European Commission proposal for a Corporate Sustainability Due Diligence Directive (CSDDD) and would replace the proposed Child Labour Due Diligence Law. The requirements would be applicable to Dutch and international companies operating in the Netherlands, but are not harmonised with the EU CSDDD. On 15 September 2023, the coalition of Dutch MPs issued amendments (*Nota van wijziging*) to the original proposal for further deliberation in Parliament.

6.8. Benchmarks

There were no notable developments in this area during 2023.

6.9. Anti-Money Laundering

EU AML Package

There have been no changes to the Dutch AML legislation in 2023. European developments regarding the AML package have been followed with great interest.

AFM Guidelines

In 2023, the AFM announced that it would revise the guidelines on the Prevention of Money Laundering and Terrorism Financing Act and the Sanctions Act. In preparation for this, the AFM organised a roundtable for trade associations. A final version of the guidelines will be published in 2024, based on the input of this roundtable and partly in consultation with the DNB (which published a consultation of the 'Wwft Q&As and Good Practices' in 2023, which in its final form will replace DNB's current guidance). There will be no public consultation on the revised guidelines, but there will be a second roundtable organised in early 2024.

Modernisation of the Dutch sanctions system

The Dutch government is working on modernising its sanctions system. The aim of the modernisation is to better meet the requirements of European sanctions decisions and regulations. It was decided to align the Sanctions Act with the current wording of the Dutch Prevention of Money Laundering and Terrorism Financing Act. A pre-consultation took place in July 2023. In August, Ministry or Foreign Affairs organised 'the week of modernisation of the sanctions system', where various stakeholders were invited to discuss the topic. A letter to Parliament on the modernisation was published at the beginning of 2024 and consultation on the legislative proposal will start in the spring.

Accessibility UBO register

On 22 November, the European Court of Justice issued a ruling on the UBO register. The Court concluded that the provision in the 5th European Anti-Money Laundering Directive - that requires Member States to ensure that information on UBOs of entities is publicly accessible in all cases - is invalid. On the same day, the Dutch Minister of Finance informed the House of Representatives that the Chamber of Commerce (which maintains the UBO register) has been asked to temporarily stop providing information from the register. The Minister has also made it clear that the ruling does not affect the obligation for legal entities to register UBOs.

In 2023, the Council of Ministers approved the proposal for an Amendment Act to restrict access to the UBO registers. Institutions that fall under the Prevention of Money Laundering and Terrorism Financing Act - notaries and competent authorities - can access UBO information from the registers in order to tackle and prevent money laundering. Journalists and civil society organisations can gain access if they are investigating people behind a company or organisation in the context of detecting fraud, money laundering and terrorist financing. In other words, they should have a 'legitimate interest'. What this legitimate interest exactly entails will be elaborated in a decision that will be consulted in 2024.

The Council of Ministers has agreed to send the Amendment Act to the Council of State for advice. This will be followed by parliamentary consideration.

Plan of action to prevent money laundering

In October 2022, the Dutch legislative proposal on the plan of action to prevent money laundering (*Wetsvoorstel plan van aanpak witwassen)* was published. This legislative proposal aims to improve the approach to money laundering prevention, and should lead to a better, more complete overview of criminal money flows. It contains three main measures. The first measure concerns a ban on cash payments from EUR 3,000; the second makes it easier for banks - which have a legal obligation to monitor transactions - to exchange data; the third ensures that financial institutions can share information with each other when their clients show signs of integrity risks.

The legislative proposal was declared controversial after the fall of the Dutch government in July 2023, and must wait until the next government is formed.

6.10. Digital Finance & Cybersecurity

DORA

In 2023, the Digital Operational Resilience Act (DORA) was on top of mind for Dutch financial institutions. In 2023 the ESA published policy documents for consultation. On a national level, the Netherlands AFM has started publishing DORA-updates, of which six are expected.

Data mobility

In September, the supervisory authorities the DNB and the AFM published a discussion paper containing a preliminary policy vision for data mobility in the financial sector. A broader ability to share data can provide benefits, but should be combined with a focus on the privacy and interests of data holders, including a greater responsibility on data users to consider data holders' interests. Stakeholders were invited to respond. In June 2023, DNB and AFM published a position paper on data mobility, in which the two supervisors explained their policy vision and priorities on data access. Both regulators have advocated that policymakers should prioritise actions that enable reliable, innovation-oriented and fair data access. The main changes compared to the Discussion Paper revolved around the use of privacy-enhancing technologies, definitions used and the balance between, and implementation of, horizontal and vertical measures

7. PENSIONS & PEPP

In the Netherlands, new rules on pensions will have a major impact on the fund and/or asset management.

The Netherlands has built up a considerable expertise in retirement provisions since 1948, when state, industry and corporate pension schemes were first introduced in the country. The Dutch pension schemes are among the largest schemes in the world, investing worldwide and applying a wide range of modern investment techniques. The Dutch skills in the area of retirement provisions include services on solvency and fiduciary management, liability-driven investments, asset-liability matching, actuarial techniques, pension scheme management, administration and pension communication.

In 2020, the government, employee and employer organisations, after long negotiations, agreed on adaptions to the pension scheme. The new pension contract should be less complex and more transparent. The changes will be implemented by the Future Pensions Act (*Wet toekomst pensioenen (Wtp)*). The Wtp has three goals: first, a supplementary pension that grows more quickly; second, a more personal and clearer pension accrual; third, a pension system better suited to the reality that people no longer work for 40 years with a single employer. The new pension rules entered into force on 1 July 2023. The social partners (employers' associations and trade unions) and pension providers have until 1 January 2028 to adjust their pension schemes. It is a large (administrative) transition for most pension funds, and most of them expect to need the full implementation period.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Netherlands has a highly developed tax climate, which is attractive both to Dutch and to foreign companies and investment vehicles.

VBI/FBI

The Corporate Income Tax Act (*Wet op de vennootschapsbelasting 1969*) has two special regulations for investment institutions; for the fiscal investment institution (FBI) and for the exempt investment institution (VBI). The aim of these schemes is to facilitate collective investment by avoiding additional taxation compared to a direct investment. This way, Dutch private investors can invest at the same costs as if they were to directly invest themselves.

In 2022, SEO economic research was commissioned by the Ministry of Finance to investigate to what extent the FBI and VBI regime are effective and efficient. The results of the evaluation of the regulations for the FBI and VBI have been shared in a letter with the *Tweede Kamer (Dutch parliament)*.

In 2023, the consultation for the legislative proposal to adjust the mutual fund (*fonds voor gemene rekening - FGR*), VBI and FBI was published. The aim was to bring the use of the schemes more in line with their original objective, which can prevent abuse by, for example, wealthy individuals or families.

The most important tax changes were published in September 2023. The VBI/FBI regime will be abolished for companies investing directly in Dutch real estate. From 2025, such companies will be liable for corporate tax in the regular manner, rather than the currently applicable rate of 0%. Otherwise, the impact on investment institutions (AIFMs and UCITS) is limited. The FGR and VBI are aligned on the definition of an investment institution as included in the Financial Supervision Act (*Wet op het financieel toezicht - Wft*) in order to prevent improper use of such schemes.

Box 3

In the Dutch Income Tax Act 2001, taxable income from savings and investments is a category of income of the government. This forms Box 3 in the tax system of Dutch law. In September 2023, the rates for 2024 (as is the custom annually) were adjusted.

On 24 December 2021, the Supreme Court issued what has become known as the 'Christmas Judgment'. In this, the Supreme Court ruled that the box 3 system has been unlawful since 2017, and that the capital gains tax in Box 3 is contrary to the right to property and the prohibition of discrimination as laid down in the European Convention for the Protection of Human Rights and Fundamental Freedoms. Only the taxpayer's actual return should be included in taxation. In January 2023, the Box 3 Bridging Act (*Overbruggingswet Box 3)* came into effect. This legislation offers a temporary solution for Box 3 until the new system comes into effect. In this, income from capital should be taxed on the basis of the actual, rather than the provisional, return. On 8 September 2023, the legislative proposal Act Actual Return Box 3 (*Wetsvoorstel Wet werkelijk rendement Box 3*) was offered for internet consultation. These new rules are intended to come into effect from 2027. To meet this timeline, the final bill must be submitted to the Tweede Kamer no later than summer 2024.

EU FASTER

On 19 June 2023, the European Commission published a proposal for a Directive on 'Faster and Safer Relief of Excess Withholding Taxes', known as EU FASTER. In initalproposal, it seemed that a wide range of investment funds would be denied access to EU FASTER. It now appears, however, that the EU FASTER procedures have become accessible to many funds, although no final decision has yet been taken. Developments in this area were closely monitored in 2023.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There were no notable developments in this area during 2023.

10. OTHER ACTIVITIES OF THE ASSOCIATION

DUFAS is in close contact with the government; mainly the Ministry of Finance, supervisors and the regulators, the DNB and the AFM in particular. The topics vary from technical implementation to the (international) positioning of the Dutch investment industry.

Via committees, expert groups, regulatory update calls, newsletters, conferences, webinars, LinkedIn and our website, DUFAS informs its members on all relevant developments in the asset management industry.

In 2023, the association organised a number of seminars both for and with its members. Topics mainly focused on sustainable finance, such as a workshop on the calculation of CO2 emissions of government bonds. There was also a seminar together with the TNO institute, a independent Dutch applied science and technology organisation on calculating and measuring of greenhouse gas emissions in general. The main DUFAS event of 2023 was the hosting of EFAMA's Board Meeting and the AGM in Amsterdam, and the celebration of DUFAS 20th anniversary in Amsterdam in the Heineken Experience. The event was focused on sustainable finance in the financial sector. During the event key notes speakers were, inter alia, Laura van Geest, Chair of the Executive Board AFM, Diederik Samsom, Head of cabinet for first vice-President European Commission Frans Timmermans, Sigrid Kaag (via video) Dutch Minister of Finance and Antonio Barattelli, Head Investment Management Unit, European Securities and Markets Authority (ESMA).

NORWAY COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Norway (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	134.6	142.6	181.1	157.9	173.1
Funds domiciled abroad and promoted by national providers	24.0	28.0	35.0	40.0	50.0
Total net assets	158.6	170.6	216.1	197.9	173.1

Table 2: Net Sales of Investment Funds in Norway (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	4,789.6	5,022.6	13,737.3	361.1	6,291.5
Funds domiciled abroad and promoted by national providers					
Total net sales	4,789.6	5,022.6	13,737.3	361.1	6,291.5

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	68.7	74.1	103.8	90.3	98.1
Bond funds	46.5	49.0	53.1	46.1	59.8
Multi-asset funds	7.9	7.8	9.7	8.3	6.3
Money market funds	10.5	10.6	13.0	12.0	
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	1.1	1.1	1.5	1.2	0.4
Total	134.6	142.6	181.1	157.9	164.5
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-27.5	1,314.2	7,932.8	2,027.4	1,175.6
Bond funds	4,910.6	3,013.9	3,080.4	-911.4	3,985.6
Multi-asset funds	86.2	-32.1	627.9	-374.5	-458.4
Money market funds	-158.2	766.2	1,925.8	-421.3	
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-21.5	-39.6	170.5	40.8	-66.9
Total	4,789.6	5,022.6	13,737.3	361.1	4,636.0
of which ➤ ETFs					
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds					3.9
Bond funds					1.5
Multi-asset funds					2.2
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds					1.0
Total					8.6
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds					1,215.9
Bond funds					258.0
Multi-asset funds					163.4
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds					18.2
Total					1,655.5
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	1,047	836	836	836	836
Home-domiciled AIFs					
Foreign funds registered for sales	1,100	1,100	1,100	1,100	1,100
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

The low figures for net sales in 2022 seem to have been a temporary setback, as net sales in 2023 returned to the levels seen in the previous years (with the exception of the record high in the COVID-19 year of 2021).

Fixed income funds made a particular strong comeback, accounting for roughly two-thirds of the total net sales. Equity funds net sales were positive, even in 2022, remaining on the same level in 2023.

Net sales were fairly evenly split between the various sectors. Both the retail market and retirement (pension) savings had positive net sales, as did as the institutional sector. Each of them made up approximately one-third of net sales.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

During 2022 and the first half of 2023, the Norwegian association has been discussing fee rebate arrangements with the Financial Supervisory Authority (FSA) of Norway (Finanstilsynet). The background to this dialogue is the European Commission's statement of November 2021 on this topic in ESMAs Q&A on UCITS. The updated Q&A

sparked debate with the FSA over the opportunity space for such arrangements, as the Commission's statement leaves room this, provided that certain conditions are satisfied. The Norwegian FSA finally concluded, in February 2023, that 'side letters' with institutional investors that imply that a fund management company pays fees from its own resources is not permissible for a Norwegian fund management company, due to constraints in the Norwegian Investment fund act. In its final response to the association, the FSA refers to the use of share classes as the sole solution in situations where a fund management company want to vary the management fee for different groups of investors. Following the FSA's announcement of its supervisory practice, Norwegian asset managers established several new clean share classes in 2022 and 2023..

6.2. MiFID II

The Norwegian FSA has adopted a strict interpretation of the MiFID II inducement rules when it comes to the provision of quality enhancement services and 'proportionality'. For this reason, MiFID II has had a significant impact on business models for fund distribution in Norway over the last couple of years. According to a survey conducted by the FSA in 2021, around 70% of Norwegian distributors had changed or adapted their business models following the introduction of MiFID II. Passing commissions on to the end investor, while at the same time charging the end investor a platform fee, has become the most widespread business model for distributors in Norway. Also, we wish to add that Norwegian ManCos established a large number of clean share classes in 2023, following the FSAs stance on inducements.

This 'new', and by now widespread, business model in Norway has not gone unnoticed by the FSA. The FSA claims that this approach makes it 'very difficult' for retail clients to compare prices between distributors and makes the funds market less transparent. In August 2022, the Ministry of Finance launched a public consultation on a proposal for a ban on commissions in Norway. In particular, the proposal aims at making the market for investment products more transparent for retail investments. The proposed ban covers the provision of all MIFID investment services (including 'execution only' services) offered to non-professional investors located in Norway. The proposal also implies a ban on fund management companies paying commissions to distributors in relation to the marketing and sales of investment funds to non-professional clients located in Norway. The consultation closed on 18 November 2022; it has received mixed reactions from Norwegian financial market participants.

It is our understanding that the Norwegian Government are likely to await the outcome of the Retail Investment Strategy in the EU before pushing further for a national ban in Norway.

EMTs and EETs are distributed in Norway. EMTs are distributed by most Norwegian fund management companies, but we are unclear on the importance of the EET.

6.3. CSDR

According to the Norwegian CSD, Euronext Securities Oslo, (Verdipapirsentralen ASA), settlement rates in Norway have been extremely high level, averaging well above 95% over the last 20 years. Hence, the local CSD has observed only a slight improvement in the rate of securities transactions settling on contractual settlement date since the introduction of penalties in 2022.

In Norway, penalties for errors attributable to the ManCo are normally paid by the ManCo concerned as an undue cost. Credits received due to fails due to the broker side, are meanwhile collected by the fund. The custodian, participating in the CSD securities settlement system on behalf of the investment fund, passes on the penalties/credit received to the ManCo, which in turn either pays the penalty as an undue cost or passes on the credit to the fund as income.

Fund settlement cycles vary somewhat among Norwegian fund management companies and among investment funds. For subscriptions, most Norwegian funds demand full payment from the client upfront on T - or full assurance that payment will take place - and the fund units will be issued to the client on T+1. For redemptions, the settlement cycle will typically vary from T+2 to T+4, depending on the characteristics of the particular fund. Global funds tend to have longer settlement cycles than those funds investing in the Norwegian market.

Norwegian management companies have yet to adjust settlement cycles to the planned US transition to T+1, but these are expected to be made in the coming period

6.4. EMIR

National implementation of EMIR lags the EU, as Norway still awaits incorporation of the EMIR Refit act into the EEA agreement. However, member companies affected by EMIR have already begun preparing for the new reporting requirements that will come into force in April 2024.

6.5. ELTIF

The national implementation of ELTIF 2.0 is lagging in Norway, and we have yet to see any significant take up of ELTIF. The original ELTIF Regulation came into force in January 2023. We are, however, optimistic that the ELTIF review will have a positive impact on both the offer and the uptake of ELTIFs in Norway.

6.6. Sustainable finance

It is still early days, making it hard to make a comprehensive judgement on the level 2 implementation of the SFDR. The main concerns of market participants are the lack of precise definitions and clarifications of central aspects of the Regulation, neither from ESMA nor from the national NCA. This - combined with a lack of reliable data - has left market participants trying to find their feet through a 'best effort' approach in a new and challenging environment.

As the Norwegian asset managers in scope of CSRD are all part of financial groups, the reporting will be handled by the parent company. The size of those independent asset managers present in Norway mean they are not within the scope of the SFDR.

The lack of reliable ESG data - and the low quality of the data available - has been a major challenge. It has created uncertainty over compliance with the requirements, reputational risk and the danger of greenwashing, making it more difficult to move capital to sustainable activities. Without such central data, as information on taxonomy compliance in investments and information on the most important negative consequences for a product it is difficult to comply with the regulations.

Lack of data access and good quality data means that asset managers are (overly) dependent on external data providers. This gives these providers great influence on definitions and key terms, which can often be based on subjective assessments by the individual provider. It is also a challenge that these data providers is usually expensive, particularly for smaller financial companies.

6.7. Stewardship

There have been no notable developments in this area during 2023.

6.8. Benchmarks

We anticipate that the revision of BMR will have no major impact on how Norwegian investment funds use benchmarks..

6.9. Anti-Money Laundering

The Norwegian Financial Supervisory Authority published new guidelines on the Norwegian AML regulation in November 2022, replacing its previous 2019 guidelines. We therefore have no developments to report for 2023.

6.10. Digital Finance & Cybersecurity

The Norwegian Ministry of Finance has recently launched a public consultation on the national implementation of DORA.

7. PENSIONS & PEPP

The Norwegian Ministry of Finance launched a public consultation on national implementation of PEPP in November 2023. The regulation is yet to be implemented.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

All tax rates impacting investment funds and investors in Investment funds remain unchanged from 2022, when the government increased the effective tax rate on equity gains and dividend income from 35.2% to 37.84% The effective rate for interest income remains at 22.0%. The new rates came into effect for the income/fiscal year 2023.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The association has co-sponsored the production of eight short documentaries. These explain, in language and a context that is easy to understand, how the financial markets work and what role they play in the economy. The documentaries explain how and why companies raise capital through share issues (IPOs) and bond issues and the role of a well-functioning second-hand market ('What is a stock exchange?'). It also examines how retail investors can participate in the capital market and benefit via, for example, investment funds. The documentaries are mainly aimed at high school and university-level students and seek to reach all high schools in Norway. They will be released during 2023.

The association is continuing its website entitled 'Den lille fondshåndboken' ('The little handbook for mutual funds investing '), a retail investor-oriented online handbook on how to get started with long-term investing in mutual funds. It covers a broad range of topics including 'What is a mutual fund?', types of funds, risk, return, costs, tax and recommended holding periods.

10. OTHER ACTIVITIES OF THE ASSOCIATION

In 2023 the association published:

- 36 newsletters for members only
- 17 newsletters, available to anyone with an interest in funds
- quarterly reports on the association's activities (for members only)
- three factsheets on different surveys and research, such as regular savings plans, geographical survey, half-yearly and yearly market statistics
- monthly statistics on fund flows and statistics for Individual Pension Savings (IPS) and Equity Investment Accounts (ASK)
- a gender survey on the proportion of women and men among employees in member companies. This is the fourth time the gender survey has been carried out
- the annual Norwegian household survey on investment funds and investment behaviour, expectations and motivations for saving.

In 2023, the association arranged the following seminars and conferences:

- An SFDR breakfast seminar in January 2023.
- The annual Investment funds conference in March 2023, attended by over 300 participants from the funds industry.
- The annual seminar, in October 2023, on compliance and risk, attended by 80 participants.

POLAND COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	63.0	61.5	65.6	56.9	73.8
Funds domiciled abroad and promoted by national providers					
Total net assets	63.0	61.5	65.6	56.9	73.8

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	-129.7	78.0	2,210.4	-4,940.1	5,044.3
Funds domiciled abroad and promoted by national providers					
Total net sales	-129.7	78.0	2,210.4	-4,940.1	5,044.3

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	5.0	4.8	6.6	4.8	6.4
Bond funds	18.9	18.0	15.9	12.2	17.9
Multi-asset funds	4.0	4.0	4.6	3.3	4.0
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.04	0.04	0.03	0.02	0.01
Other funds	0.2	0.1	0.2	0.2	0.2
Total	28.1	27.0	27.3	20.5	28.6
of which ➤ ETFs					
➤ Funds of funds	0.7	0.5	0.7	0.5	0.5

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-477.6	-192.0	912.3	-388.4	-317.2
Bond funds	1,529.8	7.1	-1,447.9	-3,045.4	2,930.1
Multi-asset funds	-370.0	45.4	482.8	-671.1	-180.4
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-31.9	4.5	-8.7	-1.4	-4.9
Other funds	8.1	48.8	97.7	12.5	-53.4
Total	658.4	-86.2	36.1	-4,093.8	2,374.2
of which ➤ ETFs					
➤ Funds of funds	9.5	-21.3	72.3	-101.7	3.4

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	1.0	1.3	2.1	1.5	2.0
Bond funds	7.7	6.7	6.2	5.5	7.8
Multi-asset funds	2.9	3.6	5.1	5.6	8.8
Money market funds					
Guaranteed/protected funds	0.04	0.04	0.03	0.01	0.01
Absolute Return Innovative Strategies (ARIS) funds	1.3	1.1	1.4	1.0	1.2
Real estate funds	0.5	0.5	0.1	0.1	0.1
Other funds	21.4	21.3	23.5	22.7	25.2
Total	34.8	34.5	38.3	36.4	45.2
of which ➤ ETFs					
➤ Funds of funds	1.5	1.8	2.8	2.1	2.9
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-69.9	113.4	649.6	-165.3	90.1
Bond funds	-102.2	-616.5	-317.5	-1,283.4	1,257.5
Multi-asset funds	56.0	737.9	1,611.9	990.8	1,515.8
Money market funds					
Guaranteed/protected funds	-5.0	-2.8	-2.6	-21.3	0.1
Absolute Return Innovative Strategies (ARIS) funds	-343.9	-36.8	190.1	-229.6	32.9
Real estate funds	-67.8	-28.4	-8.6	-3.2	-19.7
Other funds	-255.3	-2.7	51.2	-134.2	-206.6
Total	-788.1	164.2	2,174.2	-846.3	2,670.1
of which ➤ ETFs					
➤ Funds of funds	-10.3	277.9	968.7	-395.5	280.0
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	340	302	303	273	257
Home-domiciled AIFs	767	813	818	776	794
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	166	126	65	28	13
Fund liquidations	100	148	54	74	53
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

- In 2023, the AUM of domestic investment funds in Poland increased by 19% (in local currency).
- The value of AUM reached EUR 73.6 billion, the highest level ever recorded.
- The fund market grew mainly due to capital market funds, whose assets increased by EUR 11.5 billion (31.1%) during the year
- The dominant market position is held by bond funds, with AUM of EUR 25.7 billion. In 2023, their net sales amounted to EUR 4.4 billion.
- Target-date funds, with assets of EUR 6.3 billion, are growing rapidly. In 2023, this segment grew by 71%, of which capital employee plan funds grew by 83%.
- Despite negative sales (down EUR 240 million), the assets of equity funds increased by 24% to reach EUR 8.4 billion.

6. REGULATORY DEVELOPMENTS

6.1 UCITS/AIFMD

A. Deregulation Act:

The Deregulation Act came into force on 29 September 2023. This amended the provisions of the Act of 27 May 2004 on Investment Funds and Management of Alternative Investment Funds, which contains provisions implementing UCITS and AIFMD.

Changes introduced by the Deregulation Act:

Merger of non-public closed-end investment funds (FIZ)

Limited mergers of non-public Closed-End Investment Funds (FIZs) have been allowed. FIZs with adjusted investment portfolio structures and unadjusted portfolio structures may be merged in certain cases. It is possible to merge non-public FIZs, not all of which (as of the date of preparation of the merger plan) have investment portfolios adjusted to the limits contained in the Act and the charters, in order to ensure that the portfolio structure of the acquiring non-public FIZ is adjusted to these limits as a result of the merger.

Distribution service

Provisions have been introduced to regulate the service of distributing units of open-ended investment funds (FIOs) and specialised open-ended investment funds (SFIOs).

After the entry into force of the distribution service regulations, it is possible to maintain contractual relations between producers and distributors of units in three ways: (i) use of the incentive regime, (ii) distribution service agreement, (iii) use of both of the above models.

ETFs

Changes were made to the regulation of portfolio funds. Following the amendment, a portfolio fund is now a closed-end investment fund that continuously issues investment certificates. These - in accordance with the fund's charter - will be admitted for trading on a regulated market or introduced into an alternative trading system, provided the fund invests its assets exclusively as prescribed by the Act. A portfolio fund is a collective investment undertaking other than the closed-end type within the meaning of Article 2(p) of Regulation 2017/1129.

A portfolio fund redeems investment certificates at the request of the fund's participants.

A portfolio fund prepares an information prospectus, the detailed contents of which fall under the Regulation of the Minister of Finance of 7 February 2024 on the portfolio fund information prospectus.

B. Other legislative actions:

Amendment of the Regulation on the information prospectuses of open-ended investment funds and specialised open-ended investment funds and the calculation of the profit-risk ratio of these funds.

This was amended to align it with the interpretation of Article 72 of the UCITS Directive in the CJEU judgment of 20 October 2022, issued in case C- 473/20.

C. Activity of the national regulatory authority

Issuing a Position Statement on FIZ's money lending:

The PFSA Office issued an interpretation of Article 153 of the Act on 5 October 2023. This regulates the provision of cash loans by FIZs. The Office clarified that the opportunity for lending money, which in Poland must take into account the investment objective of the lending fund, is limited. Neither the loan nor the claim for its repayment is an investment of the fund and cannot be an independent activity of the fund. Linking it to the fund's investments can be done, for example, by lending to portfolio companies or companies whose shares the fund intends to acquire.

The 'success fee' standard - cooperation with the market as part of market 'self-regulation'

IZFiA has completed its work on the Standard for collecting a performance fee by closed-end investment funds. The Standard was subject to consultation with the PFSA Office.

The content of the Standard, in the opinion of PFSA Office, is consistent with the requirements laid down in the document 'Guidelines on performance fees in UCITS and certain types of AIFs' published by the European Securities and Markets Authority (ESMA). Furthermore, the solutions aim to standardise in the Polish market the practice of charging and collecting performance fees by TFIs in funds directed at retail investors, regardless of the formula under which the fund operates (FIO/SFIO/FIZ).

6.2. MiFID II

A complementary implementation has been made of the **Commission Delegated Directive (EU) 2021/1269 of 21 April 2021, amending Delegated Directive (EU) 2017/593 on integration of sustainability factors into product governance obligations.**

The changes have been implemented in the following acts for investment fund management companies (item 1) and independent distributors (item 2):

1) Regulation of the Minister of Finance, dated 29 June 2023, amending the Regulation on the manner, procedure and conditions for undertaking activities by investment fund management companies, which was circulated in the Journal of Laws on 7 July 2023.

2) Regulation of the Minister of Finance, dated 29 June 2023, amending the Regulation on the conduct of entities engaging in intermediating in the sale and repurchase of participation units and titles, as well as investment advice with respect to such instruments, which was circulated in the Journal of Laws on 11 July 2023.

We have no information on the use of FinDarEx EMT (European MiFID Template) or EET (European ESG Template) forms.

6.3. CSDR

We are not aware of how many entities will be required to report according to CSDR requirements.

With respect to the CSDR regulations, pursuant to Article 3(2) of the Act on Capital Market Supervision of 29 July 2005, the PFSA Office is the competent authority, within the meaning of the CSDR. This makes it responsible for performing the tasks provided for in the CSDR on the authorisation and supervision of Central Securities Depositories based in Poland.

6.4. EMIR

There have been no notable developments in this area during 2023.

6.5. ELTIF

We have no knowledge on this subject. We expect no significant increase in retail investments.

6.6. Sustainable finance

Implementation of SFDR

Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (SFDR) has helped raise awareness of ESG and sustainable investments. However, the delegated act does not provide clear enough objectives to the market about the specific factors that would 100% confirm whether an investment is sustainable. Given this, the market is trying to figure out classifications. A lack of common practice and the number of set standards makes for significant differences between investment companies on how these assets are classified. This leads to incomparable choices between funds, confusion among clients and exposes the industry to a trust risk. European standards-setting authorities are much better placed than their national counterparts to set clear and robust indicators on this issue, given their scale, expertise and capacity to look at the EU market as a whole.

There are too many PAIs to disclose, compare and get reliable data. Even investment professionals have issue identifying, understanding and gathering data for. The market faces huge issues in covering this area and ultimately fails to do so in many cases, leading to confusion among market participants. Slower pace of introducing PAIs would reduce current misunderstandings on exactly how companies should adjust to ESG issues.

Reporting under CSRD
We do not know how many asset managers will be required to report under the Corporate Sustainability Reporting Directive (CSRD)

Finding reliable ESG data and ratings
Our assessment of SFDR has shown that nearly 60% of asset managers face difficulties in finding the reliable ESG data and ratings required for reporting and disclosure purposes.

6.7. Stewardship

There was no work undertaken on corporate governance rules at government and PFSA Office levels.

The IZFiA, along with the IGTE, have completed their work on a revised draft of the Code of Best Practices for institutional investors. This has been forwarded to the PFSA Office for consultation.

The IZFiA continues to work on a Code of Ethics that will apply to all its members.

6.8. Benchmarks

Work is underway to develop and introduce a new interest rate benchmark based on overnight transactions.
The Regulation of the Minister of Finance of 29 August 2023, amending the conditions for issuing government bonds offered at wholesale, was published on 5 September 2023. The deadline for the conversion of benchmarks was set for the end of 2027.

6.9. Anti-Money Laundering

We have no knowledge of any significant legal changes in this area in 2023.

6.10. Digital Finance & Cybersecurity

The EU cryptomarket regulation (MiCA Regulation) was published on 9 June 2023. This will take effect - with some exceptions - on 30 December 2024. To date, the PFSA Office has indicated that it stands by its previous positions on cryptoassets (https://www.knf.gov.pl/komunikacja/komunikaty?articleId=83761&p_id=18).

In 2023, the PFSA Office, together with investment fund management companies, brokerage houses, universal pension fund companies and other supervised entities, undertook work on the 'Key Risk Indicators for the IT and IT Security Area' survey.

6.11. Other regulatory developments

Reporting
The Regulation of 25 September 2023 on periodic reports and current information on the activities and financial position of investment fund management companies, investment funds and investment funds in liquidation provided to the Polish Financial Supervision Authority entered into force. This introduced significant changes to the scope of data to be reported, the types of reports, and the type, timing and manner of reporting files.

Implementation of the NPL Directive

Work is still underway to implement the NPL Directive into Polish law. At the current stage, investment fund management companies and investment funds were considered to be exempt from applying the implementation act. The Finance Ministry has therefore asked the European Commission whether it was the intention of EU legislators to bring investment funds within the scope of this Directive; the European Commission has clarified that the Directive does not apply to investment funds.

The mCitizen application

Last year saw a new method of identity verification introduced. This has been in use for AML purposes since 1 September 2023. Financial institutions must now recognise the new verification method. The Regulation of the Minister of Digital Affairs, of 12 July 2023, on detailed conditions for authentication using the mCitizen (mObywatel) profile has changed the rules for authenticating electronic transactions in the application. This can also be used by customers in the capital market.

7. PENSIONS & PEPP

Central Pension Information

The Act on Central Pension Information (CIE) of 7 July 2023 came into effect on 5 October 2023. Central Pension Information is a system through which every citizen will have full and easily accessible knowledge of their savings in all pension product accounts.

The new system provides one-stop access to information about all the pension products owned and their current status. It also allow simulation of future pension benefits. The CIE will also allow certain activities to be performed on funds and pension product accounts.

Pan-European personal pension product

The Act on the pan-European individual pension product of 7 July 2023 (Journal of Laws, item 1843) is intended to ensure the application of Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP). The Act sets out the rules for collecting savings in PEPP accounts, the conditions for making contributions to subaccounts and the conditions for making withdrawals, transfer withdrawals and refunds of funds collected as part of the PEPP. The Act was circulated on 11 September 2023.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Offsetting gains and losses on investments in capital funds

Amendments to the Act of 17 August 2023, amending the Act on Personal Income Tax and the Act on Corporate Income Tax took effect on 1 January 2024. This introduced the possibility of offsetting gains and losses on investments in capital funds, providing a significant tax incentive to invest in investment funds.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The Chamber was a partner of the 23rd IDM Capital Market Conference, held on 1-4 March 2023. President Małgorzata Rusewicz played a significant part in the panel 'Generation Z in the capital markets'. The vice-President of the PFSA Office also spoke at the event.

As with every year, the WSE held an event entitled 'Ring the Bell for Gender Equality' in March. The Chamber supports initiatives to support the equality of women and other excluded social groups. The event, where stock exchanges around the world symbolically ring their bell, in Poland is organised by the UN Global Compact Network Poland and the Warsaw Stock Exchange.

The Chamber also supported - as it does every year - another (the 7th) edition of the Financial Education and Entrepreneurship Congress, held on 22-23 March 2023, under the theme 'Financial knowledge and skills as the key to responding to global economic challenges'. The two-day event was organised by the WSE Foundation and the Warsaw Institute of Banking Foundation.

The Chamber supported the Gala - Bulls and Bears of 'Parkiet', which took place on 30 March 2023 in the main hall of the Warsaw Stock Exchange. The award in the category of best TFI of the year - awarded to Pekao TFI - was presented by Małgorzata Rusewicz.

On 18 May, IZFiA members took part in the 'Know ESG Game Show' workshop game, organised by CFA Society Poland, co-organised with CFA Institute and supported by IZFiA. This interactive quiz was designed to provide sustainable finance professionals and enthusiasts in the investment industry with key ESG knowledge in a fun and engaging way. The event was held on-site at the WSE's main building.

IZFiA was once again a Supporting Partner of the 18th edition of 'The Best Annual Report' competition for regulated market issuers and the 11th edition for the alternative market. This is a non-profit project, serving the environment and shaping good practices in the financial reporting of public companies, enhancing the security of the capital market in Poland.

IZFiA supported five of the largest Polish organisations focused on economic education, namely the Warsaw Institute of Banking (coordinator), the Polish Economic Society, the Polish Scouting Association, the WSE Foundation and the Youth Entrepreneurship Foundation in their efforts to declare 2024 as the Year of Economic Education. This represents a commitment to coordinated cooperation in supporting the idea and mission of economic education.

IZFiA became an Institutional Partner of the 13th edition of the EFC (European Financial Congress), which took place on 5-7 June 2023 in Sopot. The aim of the Congress is to identify practical solutions in the areas most important for the joint development of the economy of the EU and Poland. IZFiA President Małgorzata Rusewicz attended the Congress roundtable discussion.

The 3rd edition of the Financial Education Day was held on 18 October 2023, held both onsite and online. The programme included lectures on issues including investing, managing personal finances and developing entrepreneurial attitudes. An important agenda item was the presentation of the idea of the Year of Economic Education 2024, passed by the Senate of the Republic of Poland. IZFiA members also contributed to this.

The Chamber also supported the 'Ring the Bell for Financial Literacy' ceremony, which inaugurated World Investor Week. The event, hosted by the Warsaw Stock Exchange, the Polish Financial Supervision Authority, the KDPW_CCP and the WSE Foundation, took place in October in the Trading Room of the Warsaw Stock Exchange.

IZFiA took patronage of the conference organised by the Warsaw School of Economics - Institute of Corporate Finance and Investment entitled 'ESG - Sustainable transformation of the economy, local governments and financial markets - trends, challenges and best practices' on 12-13 October 2023. The event was held in the main building of the Warsaw School of Economics, and the Chamber was represented by IZFiA President Małgorzata Rusewicz. This was the first event of its kind in Poland, integrating market and non-market players around issues of changing social expectations and regulations aimed at sustainable development.

The Chamber funded a prize for the best master's thesis on investment funds. Papers could be submitted for participation in the 10th anniversary edition of the competition for the best dissertation on the capital market until 31 October 2023 for the prize of the WSE President, of which IZFiA is again the patron. The finals of the competition will be held in March 2024.

IZFiA invited its members to take part in a series of workshops - alongside European and global asset managers - organised by EUROSIF (European Sustainable Investment and Finance Association) on investments considering the Justice, Equity, Diversity & Inclusion (JEDI) optics. It was an opportunity to learn about sustainable investment practices in an international environment.

IZFiA has been a Partner of the WSE Foundation's 'Go4Poland' program for years. As part of this, there is an internship opportunity for Polish students and graduates of foreign universities from around the world. Eligible applicants include students from abroad with a Polish background.

Senior managers of IZFiA members affiliated with the Chamber gave a series of interviews as part of the 'Sneakers on the Stock Market' initiative, of which the Chamber became the patron. The project's mission is to educate the younger generation into taking an informed approach to finance and investing. The call to give these interviews to 'young journalists' played by high school students or the last grades of elementary school, had a great response.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Reports

The Chamber regularly collected, gathered and processed data on the investment fund market. The files were provided on a voluntary basis by both IZFiA member and non-member TFIs using a proprietary standard. Based on the data received, the Chamber created its own reports and studies, which are published on the IZFIA website at https://www.izfa.pl/raporty.

Marketing research

During 2023, the Chamber of Fund and Asset Management was active in the area of market research. IZFiA decided to conduct the research in two independent phases:

a. A segmentation study on ways of managing savings and propensity to invest: '**Survey of Poles by management methods**' was commissioned by the ARC Institute for Research and Opinions and conducted for IZFiA in May 2023.

b. '**Future Scenarios. Fund Client 2033: Key Uncertainties and Their Alternative Outcomes**'. This survey was commissioned by IZFiA and conducted by Capful Ltd and Capful Polska Sp. z o.o. with the participation of senior management of IZFiA members.

In addition, the following projects were implemented:

- **'Communication of Institutional Investors with Portfolio Companies'**. This sought to determine the scope of information expected by investors and the delivery method that investors believe would allow them to monitor the activities of portfolio companies effectively.
- **'Women in Finance 2023'.**
- **'The Level of Integration of ESG Factors in TFIs in Poland'**. The aim of the study was to determine the extent to which ESG aspects have penetrated the activities of Polish Investment Fund Management Companies in 2023. Following the example of other countries, there would be a report prepared summarising the Polish situation and the best practices applied by TFIs in the area of ESG. The study was conducted by the CFA Society Poland; the Chamber took part in the preparing the research tools and in distributing the survey.

Annual Report 2022

In June 2023, the Chamber of Fund and Asset Management published its **Annual Report** on the Polish fund market in 2022. The report was prepared in cooperation with the Analizy Online service.

The report provides comprehensive information on key indicators, trends and events that took place in the investment fund industry over the past year. Among other things, it presents an analysis of various investment funds, and includes data on the value of assets under management, fund efficiency, and information on regulations and legal changes affecting the investment fund market.

17th Forum of IZFiA Funds

The 17th Fund Forum Conference, the flagship event of the Chamber of Fund and Asset Management, was held in Kazimierz Dolny on 21-22 June 2023, under the theme 'Client in the lead role'.

The Forum was once again followed a two-day format. It was attended by members of the asset management market and their business environment, independent experts and representatives of state regulatory and supervisory authorities. The Forum was a special edition, during which we celebrated the 25th anniversary of the Chamber of Fund and Asset Management.

The Forum featured 59 speakers and was attended by around 270 participants. Special guests at the 2023 Fund Forum included Prof Andrzej Dragan and Jacek Dukaj. In addition, Kian Navid, Senior Policy Officer for Investment Management, European Securities and Markets Authority from ESMA (European Securities and Markets Authority), also made a presentation.

International Investment Funds Association (IIFA) Conference in Cyprus

The President of the Chamber, Ms Małgorzata Rusewicz, was invited by IIFA to take part in the International Investment Funds Association (IIFA) Conference in Cyprus on 23-25 October 2023. This is considered a flagship event for the investment management industry. It was significant that an organisation as prestigious as the IIFA, entrusted a Polish representative to prepare a presentation for the debate 'Navigating the New Era of Funds and Asset Management: An Industry in Transition'. Her intervention was immediately following a lecture by Christopher Pissarides, Nobel Laureate in Economic Sciences.

PORTUGAL COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Portugal (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	23.5	25.5	31.0	29.3	33.1
Funds domiciled abroad and promoted by national providers					
Total net assets	23.5	25.5	31.0	29.3	33.1

Table 2: Net Sales of Investment Funds in Portugal (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	955.0	1,477.8	4,260.3	-412.3	141.3
Funds domiciled abroad and promoted by national providers					
Foreign-domiciled funds promoted by foreign providers	152.6	184.9			
Total net sales	1,107.6	1,662.7	4,260.3	-412.3	141.3

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	1.8	1.9	3.3	3.2	3.6
Bond funds	2.7	3.0	2.9	2.6	3.8
Multi-asset funds	5.7	6.6	10.2	8.5	8.4
Money market funds	0.2	0.4	0.3	0.4	0.8
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	1.8	1.9	2.0	1.5	1.2
Total	12.3	13.9	18.9	16.3	17.9
of which ➤ ETFs					
➤ Funds of funds	3.7	4.2	6.3	5.2	5.1

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	198.9	111.1	875.6	398.9	-133.4
Bond funds	262.4	309.5	-42.7	-108.4	416.7
Multi-asset funds	1,000.1	771.9	3,190.4	-270.8	-720.4
Money market funds	43.4	177.4	-83.5	79.0	325.2
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-388.3	64.1	145.1	-468.2	332.3
Total	1,116.5	1,434.1	4,084.9	-369.4	220.5
of which ➤ ETFs					
➤ Funds of funds	310.8	391.5	1,868.7	-227.4	-478.9

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds	0.3	0.4	0.5	0.4	0.5
Multi-asset funds	0.1	0.1	0.1	0.1	0.2
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.001	0.001	0.001	0.001	0.001
Real estate funds	10.5	10.8	11.1	12.2	14.4
Other funds	0.3	0.2	0.3	0.2	0.2
Total	11.2	11.6	12.0	13.0	15.2
of which ➤ ETFs					
➤ Funds of funds	0.3	0.2	0.2	0.2	0.2
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds	87.7	88.4	135.4	-24.0	-17.8
Multi-asset funds	6.9	8.6	46.2	11.3	-3.5
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-8.8	-0.02		-0.03	
Real estate funds					
Other funds	-247.2	-53.2	-6.2	-30.2	-57.9
Total	-161.5	43.8	175.4	-42.9	-79.2
of which ➤ ETFs					
➤ Funds of funds	-60.2	-56.7	-22.0	-24.7	-55.6
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023 (1)
Home-domiciled UCITS	145	142	144	152	166
Home-domiciled AIFs	226	217	217	240	289
Foreign funds registered for sales	3,672	4,175	4,434	4,663	1,904
➤ By national promoters	24	27	30	31	
➤ By foreign promoters	3,648	4,148	4,404	4,632	
Fund launches	21	15	25	50	73
Fund liquidations	16	21	18	15	10
Fund mergers & acquisitions	6	6	5	4	

(1) In 2023, the number of Foreign Funds includes only those Funds that have subscriptions, excluding Funds registered for sales that don't have subscriptions

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

The new legal regime governing the management of investment funds - 'Regime da Gestão de Ativos' (RGA) was finally published by the Decree-Law 27/2023, on 28 April 2023. This followed several public and private consultations from the Portuguese Securities Commission (CMVM), the Ministry of Finance and the Parliament, closing a legislative procedure that had started at the end of 2021.

The new regime concentrates, in a single document, the legal framework of all types of Collective Investment Undertakings (CIUs), whether UCITS or AIFs. Previously, venture capital funds and some other types were governed by a different legal act. It creates a new paradigm for the supervision of investment funds and their managers, shifting from an *ex-ante* supervision (where specific authorisation from the CMVM was required prior to most of the variations in the management of investment funds) to an *ex-post* supervision (where most of these events no longer require such authorisation).

The new regime also simplifies the regulatory framework of Portuguese investment funds and was intended to eliminate all gold plating. It was complemented by CMVM Regulation 7/2023, which completed the legal and regulatory framework governing Portuguese investment funds.

The new CMVM Regulation has tried to follow, in general, the principles inherent to the RGA, creating a simpler and more flexible regime. This is expected to contribute further to increase the competitiveness and the attractiveness of the Portuguese investment fund's market.

The CMVM detected some errors in the valuation of unlisted money market instruments (MMIs), namely the use of amortised cost method on MMIs with a maturity greater than 90 days. It also found some deficiencies in the valuation of real estate assets, which has led to the issue of additional guidance regarding those valuations.

5.2. MiFID II

Portuguese investment funds are mainly sold by the depositary. These are commonly part of the same group as the management company, which facilitates obtaining / providing the information that needs to be disclosed under MiFID II. Nevertheless, EMT is commonly used by asset managers and distributors.

We are not aware of the EET playing an important role in the Portuguese market. However, there has been growing awareness of the EET among funds managers and we expect its role in the distribution and disclosure processes to grow in importance.

5.3. CSDR

We do not have information available on the penalties topic; usually penalties / credits that are due are normally passed on to the end client. However, there are some cases where such penalties are received by the ManCo, more specifically in the case of omnibus accounts (mandates).

Portuguese Investment Funds typically operate on a settlement cycle of T+2. Some operations have a shorter cycle - T+1 or T+0 - namely those with US securities.

We are not aware of any current move to shorten the settlement cycle, other than the need to adjust whenever investments are made in the US markets.

The move to a T+1 or shorter cycle will require greater involvement from all parties in the transaction (counterparties, brokers and custodians) to ensure that confirmation is made immediately after conclusion, and that the financial flows are completed on T+1.

There is a greater concern over markets that operate in locations with a longer time gap, such as the Americans and in Asia, because the confirmation of the transactions may occur only in T+1. This means that fund managers must self-impose a cutoff before the close of the market, or have teams working longer to assure confirmation of the transactions and their settlement.

5.4. EMIR

There were no notable developments in this area during 2023.

5.5. ELTIF

We have not seen any particular interest among Portuguese fund managers in ELTIFs and therefore we do not anticipate any take-up of Portuguese ELTIFs.

5.6. Sustainable finance

Market participants continue to struggle with the scarcity of viable and reliable data to comply with the Level 2 SFRD.

The CMVM is keeping the SFDR and sustainable finance at the top of its priorities. As well as participation in ESMA's CSA on sustainability-related disclosures and the integration of sustainability risks (initiated on the second half of 2023), the CMVM also conducted additional supervisory actions. Following those national exercises, it published two circulars where it summarised the main results of the implementation - by investment fund managers and

MiFID firms - of the legal requirements. These specifically looked at the disclosure of information on sustainability issues and also expressed the expectations of the regulator over the compliance of Portuguese investment fund managers and investment firms with sustainability-related items.

At the beginning of 2024, the CMVM published a sustainability guide for supervised entities. This aimed at easing and encouraging the adoption of policies and procedures aligned with the regulator's supervisory expectations as well as with the guidelines and recommendations of both ESMA and the CMVM. The guide includes a comprehensive list of the relevant rules and guidelines on sustainability, which are currently found in a wide range of legal acts, both national and international.

According to current information, we believe no Portuguese asset managers will have to report (directly) under CSRD.

Most asset managers rely on providers specialised in ESG data. However, the fact that data providers do not cover all issues / issuers, and that the analyses by different data providers of the same issue / issuer can be inconsistent, compounds the difficulties for asset managers.

5.7. Stewardship

There were no notable developments in this area during 2023.

5.8. Benchmarks

There were no notable developments in this area during 2023.

5.9. Anti-Money Laundering

There were no notable developments in this area during 2023.

5.10. Digital Finance & Cybersecurity

The new CMVM Regulation 7/2023 includes an obligation on fund managers to report to the Supervisor any cybersecurity incident that impact or may impact the normal functioning of the firm. This report needs to be done within the first 24 hours following the detection of the incident.

6. PENSIONS & PEPP

No specific developments have occurred. However, work on implementing the PEPP Regulation is still in progress. In October 2023, the Government presented a draft law on the national specifications of the PEPP regulation for the conditions for the accumulation and the decumulation phases. The PEPPs tax regime is not yet known.

The APFIPP, together with other national associations from the financial sector, has been trying to lobby on the importance of PEPPs and of granting it favourable tax conditions that contribute to its adherence by Portuguese operators and Portuguese investors.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There were no notable developments in this area during 2023.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In 2011, the Government established the National Plan for Financial Education (PNFF). This is coordinated by the three Portuguese financial supervisors along with the collaboration of a diverse set of stakeholders, including national associations within the financial sector, such as the APFIPP.

Over the past 13 years, extensive work has been done to increase the level of financial knowledge among the Portuguese population and to promote adoption of appropriate financial behaviours. This used an integrated vision of financial education projects and a combination of the stakeholder efforts, thus contributing to increase the wellbeing of the population and the stability of the financial system.

To help promote financial literacy, efforts are ongoing to increase the training of new trainers in this field. With this in mind, regular training sessions have been promoted for different targets, such as educators, employees of municipal entities or other public entities and also associations of social nature.

The APFIPP has been working with a range of stakeholders in the financial sector to increase financial literacy and awareness around saving and investment. As already stated, the Portuguese association has maintained an active collaboration with the National Plan for Financial Education (PNFF).

In the context of PNFF, in 2023 the APFIPP once again joined the Financial Training Week, organised by the Portuguese financial supervisors around the World Savings Day (31 October). The aim was to raise awareness to the importance of financial training, which took place 30 October - 3 November. Throughout that week, the PNFF partners, including the APFIPP, promoted initiatives for a range of target audiences; students of all ages, teachers and other trainers, managers of micro and small companies and the general population. As part of this, the APFIPP promoted an educational initiative entitled 'Discovering Savings', for fifth- and sixth-grade students in two different schools.

In addition, the APFIPP continued the initiative - started in 2022 - of partnering with a well-known Portuguese journalist (Camilo Lourenço) to produce online content on finance and financial education in the form of weekly videos, circulated through social media (Facebook and YouTube). These addressed themes around the areas of savings and asset management. A total of 12 videos were produced.

The APFIPP also took part in World Investor Week 2023, teaming up with Euronext Lisbon to organise a seminar for students at one of the major universities in Portugal (Universidade Católica Portuguesa). The theme of the seminar was 'Artificial Intelligence applied to the management of savings and investments: opportunities and risks'. This included a debate with different personalities from the asset management industry, from IT companies and from academia and was broadcast by one of the major economic journals in Portugal (ECO).

9. OTHER ACTIVITIES OF THE ASSOCIATION

- **Publications (reports, newsletters, surveys, research)**
  The APFIPP continues to be the main source of statistics on Portuguese asset and pension fund management, providing regular data on the sectors it represents through its website and also by e-mail.

- **Conferences, seminars and webinars**
  The APFIPP launched, in 2023, the first edition of the Investment Management and Pension Forum (IMPF). This is intended to be an annual initiative that contributes to a better knowledge of the asset management and pension fund management industries and to provide for a joint reflection on its current and future role. The focus is on promoting savings and their profitability.

  The first edition took place on 13 December and featured three panels.
  a) **2023 / 2024 Market outlook and asset allocation:** The impact of interest rates, inflation and the geopolitical situation in the fund market (mutual funds, pensions funds and real estate funds);
  b) **The Regulatory Outlook of investment funds:** ESG investing; ESG Ratings; Review of the SFDR Delegated Regulation (PAI); Retail investment strategy: Will these measures help to attract households' investment?
  c) **New trends and new products: '**PEPP/ELTIF - Will they be a success?' 'Robo-advising'; 'AI'; 'Big data'; 'Crypto-assets'; 'Private asset investment: will it boost household savings?'

ROMANIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Romania (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	9.6	8.4	9.9	8.4	7.1
Funds domiciled abroad and promoted by national providers	0.7	0.7	1.0	0.8	1.0
Total net assets	10.3	9.1	10.9	9.2	8.1

Table 2: Net Sales of Investment Funds in Romania (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	403.3	-669.1	472.5	-1,368.6	203.9
Funds domiciled abroad and promoted by national providers	15.4	6.2	183.1	-21.5	-22.4
Total net sales	418.7	-662.9	655.6	-1,390.1	181.5

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	0.1	0.2	0.4	0.4	0.5
Bond funds	3.3	2.8	2.7	1.6	1.8
Multi-asset funds	0.3	0.3	0.5	0.4	0.5
Money market funds					
Guaranteed/protected funds	0.1				
Absolute Return Innovative Strategies (ARIS) funds	0.1	0.03	0.05	0.02	0.02
Other funds	0.8	0.8	0.9	0.6	0.7
Total	4.7	4.0	4.5	3.0	3.5
of which ➤ ETFs	0.002	0.003	0.01	0.01	0.04
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	17.1	29.0	153.3	-9.3	50.1
Bond funds	366.4	-654.3	1.3	-979.2	70.3
Multi-asset funds	39.1	33.4	177.6	-87.0	27.5
Money market funds					
Guaranteed/protected funds	-21.3	-14.4			
Absolute Return Innovative Strategies (ARIS) funds	-23.4	-31.9	19.7	-0.2	-1.5
Other funds	32.5	-50.8	108.0	-264.5	63.5
Total	410.4	-689.0	459.9	-1,340.2	209.9
of which ➤ ETFs	0.5	0.7	4.7	2.5	15.1
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	4.6	4.1	5.0	5.1	3.3
Bond funds					
Multi-asset funds	0.04	0.03	0.04	0.04	0.04
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.1	0.1	0.1	0.1	0.1
Real estate funds					
Other funds	0.2	0.2	0.2	0.2	0.2
Total	4.9	4.4	5.3	5.4	3.6
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds				1.3	6.2
Bond funds					
Multi-asset funds	3.0	0.1	4.5	0.9	-0.3
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-7.8	12.0	-1.3	-0.1	0.02
Real estate funds					
Other funds	-2.4	7.8	9.5	-30.5	-11.9
Total	-7.2	19.9	12.6	-28.4	-6.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	**2020**	**2021**	**2022**	**2023**
Home-domiciled UCITS	81	81	86	89	92
Home-domiciled AIFs	30	33	34	36	32
Foreign funds registered for sales	104	108	114	115	151
➤ By national promoters					79
➤ By foreign promoters					72
Fund launches	3	4	7	8	3
Fund liquidations		1	1	3	2
Fund mergers & acquisitions	3	3	1		1

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

NCA's REGULATION No. 16/2023 for amending the annex to the Financial Supervisory Authority Regulation No. 13/2018 on the implementation of the European Securities and Markets Authority (ESMA) Guidelines on stress test scenarios under the Article 28 of Regulation (EU) No. 1131/2017 on money market funds.

5.2. MiFID II

NCA's Regulation 12/2023: this is intended to reflect and implement the ESMA guidelines on certain aspects of the MiFID II suitability requirements. Key features of the Regulation include a clearer distinction between active and inactive clients, clarification of investment firm obligations to review business continuity plans and the removal of prudential requirements given Law no. 236/2022 on prudential supervision of investment firms. Other aspects involve SSIF. reporting, considering guarantee letters for funding client accounts and flexibility in margin transactions.

The national legislation was LAW no. 181 of 26June 2023 on establishing measures to implement Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) no. 1,095/2010, (EU) no. 648/2012, (EU) no. 600/2014, (EU) no. 806/2014 and (EU) 2015/2.365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/

EU and (EU) 2017/1.132, as well as for the amendment and completion some normative acts. The amendments to Law no. 126/2018 on markets in financial instruments ensured that the changes in the provisions of art. 4 para. (1) point 15 of Directive (EU) 2014/65/EU introduced by the provisions of art. 18 of Regulation (EU) 2022/858 are transposed into the national legislation, ensuring the possibility of applying pilot regimes for market infrastructures based on distributed ledger technology (DLT).

At present, FinDatEx EMT (European MiFID Template) and/or EET (European ESG Template) do not play an important role in the overall distribution and disclosure processes in Romania.

5.3. CSDR

As far as we are aware, there has been no feedback from the Romanian NCA on the impact of penalties on levels of settlement fails.
On the proposed shortening of the settlement cycle in the US (to go into effect in May 2024), there are no moves to shorten the current T+2 period as a result of the planned US move to T+1.

5.4. EMIR

There were no notable developments in this area in 2023.

5.5. ELTIF

We see no impact on the take-up of ELTIFs in Romania following the revision of the ELTIF regulation. We do not anticipate further investments from retail investors in such products, at least in the short-term.

5.6. Sustainable finance

The Romanian government adopted new rules (Emergency Government Ordinance no. 119/2023) and standards for so-called 'ecological' financial instruments that observe the EU's taxonomy criteria set out by Regulation (EU) 2020/852. These included support instruments for financial products, such as loans, guarantees and counter-guarantees and mezzanine investments. The standards require, for example, that independent evaluators verify compliance with sustainability principles and assess proposed projects for environmental impact mitigation. Issuers are mandated to prepare pre-issuance information sheets and post-issuance impact reports, to be published on their websites.

Romania has transposed the CSRD through Ministry of Finance Order No. 85/2024 on sustainability reporting aspects, with effect on 26 January 2024. This amends and supplements the accounting regulations in Romania (the Accounting Regulations on Individual Annual Financial Statements and Consolidated Annual Financial Statements and the Accounting Regulations, in accordance with IFRS). The new legislation sets out the main reporting rules for all entities concerned, irrespective of the phased application of sustainability reporting obligations. It introduces provisions on issues such as the content of sustainability reporting, exemptions from sustainability reporting, the mandatory use of the single electronic reporting formats, reporting by third-country entities and responsibility for sustainability reporting.

Although the transposition legislation is generally in line with the CSRD, some differences are worth highlighting:

- Under the Romanian accounting provisions, the same thresholds apply to large and medium-sized undertakings (unlike the CSRD provisions). Therefore, medium-sized companies are subject to the same reporting conditions as apply to large companies.

- The regulations introduce a lower threshold for listed subsidiaries that are required to report. Subsidiaries that meet that threshold are not exempted from the general reporting obligations under the CSRD, even if included in the consolidated report of the parent company. This is not the case with the CSRD rules, which only require reporting by large, listed entities.

- There are differences in the size of listed companies that are allowed not to report on sustainability in their management report for financial years starting before 1 January 2028, provided that they note in the management report the reasons why sustainability reporting was not included.

As part of the National Strategy for the Sustainable Development of Romania 2030, a Romanian Sustainability Code (RSC) was approved by Government Decision no. 1.117/2023. This aims to provide stakeholders with a greater insight into the requirements of sustainability reporting, as well as a free-of-charge reporting platform.

Before the issuance of Order 85/2024, in an attempt to increase the number of entities publishing non-financial statements or sustainability reports, the government adopted the RSC, published in the Official Gazette of Romania no. 1052 bis on 21 November 2023. As a non-binding normative act, the purpose of the RSC is to ensure the transparency, consistency and comparability of non-financial sustainability information for all market participants, even those not required by law to report on their sustainability performance.

In the first wave, four asset managers will have to report under the CSRD in 2025 (for the year 2024). Understanding the key concepts of the Directive is the first challenge facing companies; data availability, consistency and quality is another. Coordinating data collection from diverse sources and ensuring its accuracy and consistency throughout the reporting process can be complex and time consuming. Furthermore, maintaining data quality, verifying data integrity and addressing potential gaps or inconsistencies adds to the data collection challenges associated with CSRD reporting.

Another challenge is the limited expertise and resources: asset managers may lack the necessary staff, knowledge or systems to compile and report the required data effectively.

5.7. Stewardship

There were no notable developments in this area in 2023.

5.8. Benchmarks

There were no notable developments in this area in 2023.

5.9. Anti-Money Laundering

In January 2023, the Romanian NCA published the Regulation no. 18/2022 for the amendment and completion of Financial Supervision Authority Regulation no. 13/2019 on the institution of measures to prevent and combat money laundering and terrorist financing through the financial sector, supervised by the Financial Supervisory Authority, an extended revision of the landscape for AML rules for organising this activities and reporting to the relevant national agencies.

5.10. Digital Finance & Cybersecurity

There were no notable developments in this area in 2023.

5.11. Other regulatory developments

The issuance of NCA's Instruction No. 4/11.10.2023 for implementing the guidelines on the use of remote customer registration solutions based on Article 13, paragraph (1) of Directive (EU) 2015/849.

The issuance of NCA's Regulation no. 3/ 2023 on the transmission of information through the Authorisation Portal Platform by investment management companies and administrators of alternative investment funds and for the amendment of the NCA's Regulation. no. 9/2014 on the authorisation and operation of investment management companies, collective investment schemes and depositories of collective investment schemes.

6. PENSIONS & PEPP

No new developments in pension fund legislation relevant to the fund industry have taken place in 2023.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

On 6 March 2023, Romania officially notified the OECD of its completion of all necessary internal procedures for the application of the MLI – Multilateral Convention to Implement Tax Treaty related measures to prevent base erosion and profit shifting. By fulfilling these procedures, Romania has committed to implementing measures to prevent tax treaty abuse and improve dispute resolution mechanisms. The MLI should produce effects in Romania starting on 1 January 2024.

The NCA's Instruction No. 1/6218/2023, approving the rules for determining, withholding and transferring the capital gains tax resulting from the transfer of securities obtained by individuals to the state budget. This piece of legislation implements the new regime, which uses different rates of taxation for securities, depending on whether they are held for less or more than 365 days (3% or 1%).

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

During 2023, our financial education project '*Economisește inteligent!*' (Saving smart) aimed to expand its audience, the public targeted to be reached by information from AAF specialists and members of the association, as well as strengthening the messaging on the benefits of investing in funds.

The profile of the audience for the 2023 edition of the project targeted those people who do not constantly follow publications with a dedicated economic/financial profile but rather access the media where they have an interest.

Consequently, a new mix of media partners was created (TV, radio and online publications) and unconventional tactics were deployed, namely financial education in lyrics/rhymes, promoted on Instagram.

9. OTHER ACTIVITIES OF THE ASSOCIATION

In 2023, the AAF organised its 5th 'Asset Management Industry Summit', our main annual event, where the association members, together with partners and guests, discuss the opportunities for growing the asset management industry, the latest trends and the challenges facing the industry. The latest event attracted a strong presence.

In cooperation with Bucharest Stock Exchange, we organised quarterly events to discuss market evolution and strategies in managing equity fund, in order to promote these to potential investors. Press releases following these events generate good media coverage.

The AAF publishes monthly reports on the local investment fund industry, covering trends and providing the most relevant industry statistics.

SLOVAKIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Slovakia (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	7.4	7.8	9.4	8.8	9.6
Funds domiciled abroad and promoted by national providers	2.2	2.4	3	2.9	1.6
Total net assets	9.6	10.2	12.4	11.7	11.2

Table 2: Net Sales of Investment Funds in Slovakia (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	314.8	274.7	1,147.3	212.1	162.7
Funds domiciled abroad and promoted by national providers	206.1	174.7	364.9	252.8	-45.9
Total net sales	520.9	449.4	1,512.2	464.9	116.8

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	0.6	0.7	1.3	1.4	2.0
Bond funds	1.6	1.4	1.3	1.1	1.2
Multi-asset funds	3.2	3.6	4.2	3.5	3.4
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	5.3	5.8	6.7	6.0	6.5
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	55.3	54.9	346.3	357.8	309.1
Bond funds	-163.2	-134.4	-145.6	-149.0	72.0
Multi-asset funds	166.3	204.8	583.5	-118.1	-449.6
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	58.3	125.4	784.1	90.7	-68.5
of which ➤ ETFs					
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds					0.003
Bond funds	0.1	0.1	0.1		0.01
Multi-asset funds	0.5	0.3	0.6	0.6	0.6
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	1.5	1.7	2.0	2.2	2.5
Other funds					
Total	2.1	2.0	2.7	2.8	3.1
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds	0.1	0.1	0.2		

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds					3.6
Bond funds	20.3	21.9	0.9	-11.5	6.7
Multi-asset funds	87.9	-21.4	89.5	-9.9	17.4
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	148.3	148.8	272.8	142.8	203.6
Other funds					
Total	256.5	149.3	363.2	121.4	231.2
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds	8.3	7.4	24.4		

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	72	68	68	67	69
Home-domiciled AIFs	22	22	28	30	29
Foreign funds registered for sales					
➤ By national promoters	561	556	531	528	159
➤ By foreign promoters			177	328	699
Fund launches	9	4	213	192	51
Fund liquidations		11	32	33	33
Fund mergers & acquisitions	1	2	23	10	15

5. MARKET DEVELOPMENTS IN 2023

Net asset value of open-ended mutual and investment funds under the management of domestic and foreign SASS members reached a value of EUR 12.73 billion as of the end of 2023, representing an increase of 9.2% (in absolute terms, EUR 1.069 billion) compared to the end of 2022. This was also the highest historical year-end value of assets in mutual funds in Slovakia.

The largest share of assets - 36.3% - remains invested in mixed funds, although their share decreased by 4.7% during 2023. Equity funds, with a 29.5% share, are significantly closing in on mixed funds, increasing their representation by 5.2% during the year. The share of real estate funds slightly increased to 20.6%, while bond funds continued to decline, accounting for only 9.1% of all investments. Other types of funds were only minimally represented. As for domicile, Slovak investors continued to prefer domestic funds, accounting for 75.7% of the market at the end of 2023, while the remaining 24.3% were foreign funds.

Net sales of mutual funds in 2023 amounted to EUR 175.9 million, the lowest since 2011. Positive net sales were recorded in equity (EUR 453.3 million) and real estate funds (EUR 221.7 million). The largest outflow of financial resources was observed in mixed funds (EUR 466.1 million). The sales results confirmed both clients' sensitivity to performance and their significant inertia. This means that - despite the excellent performance of funds in 2023 - clients still had prevailing sentiments from the previous year.

From the perspective of fund performance achieved, 2023 brought greater joy to investors than 2022. There were positive returns recorded in all categories of mutual funds, and overall managing to erase more than 90% of the losses from the previous year. Equity funds were the top-performing class, with an average return of 17.6% in 2023. Mixed and bond funds also rewarded investors, with performances of 7.1% and 5.5%, respectively.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

The National Bank of Slovakia began its consultation on ESMA's 2022 Common Supervisory Action on valuation practices at the end of 2023. There were no other relevant national regulatory/supervisory developments.

6.2. MiFID II

The National Bank recently issued a revised version of Q&A on MiFID II, which also affected the topic of inducements. Other services have been added, that enhance the quality of the services provided to the client, as well as those required by law.

EMT and EET templates are broadly used on the Slovak market by advisors and financial market participants.

6.3. CSDR

We are unaware of the feedback from the NCA in Slovakia on this topic. However, we saw positive feedback from the Central Securities Depository of the Slovak Republic (CDCP), with all orders related to the collection and distribution of fines were settled by the participants by the required settlement date. In Slovakia, penalties are received either at custodian level or are passed on to the end-client, depending on whose side the settlement failure occurred.

In Slovakia, standard settlement is T+2 and the shorter term is not being considered.

6.4. EMIR

Firms are prepared for the new EMIR RTS on derivatives trade reporting, which come into force in April 2024. We are unaware of any issues that are unclear.

6.5. ELTIF

No ELTIF has been established in Slovakia to date. Asset managers examine the changes in L1 of the ELTIF regulation and also the draft of the RTS.

These changes open up new possibilities (such as opportunities for retail investors or early redemption), which may be interesting for local asset managers.

6.6. Sustainable finance

Given its comprehensive nature, this topic still raises numerous questions. We are also monitoring the changes announced in RTS of SFDR. Asset managers and other financial institutions regularly meet with the National Bank of Slovakia to discuss sustainable finance topics and upcoming changes in legislation.

None of the Asset Management companies established in Slovakia are of sufficient size, or have the requisite number of employees, to be subject to CSRD reporting.

Asset management companies in Slovakia receive the reliable data needed for ESG reporting from world-renowned asset managers, and have no reservations about them to date.

6.7. Stewardship

In Slovakia, we are unaware of any relevant corporate governance or stewardship developments in 2023.

Slovak asset managers invest predominantly in foreign companies. As a result, their share of companies' equity is often negligible. Thus, they only occasionally use the voting rights.

In Slovakia, we are unaware of any proposal this year to enhance due diligence requirements, reduce the risk of improper use of natural resources or any ban on forced labour.

6.8. Benchmarks

There have been no relevant national regulatory developments in 2023.

The impact of the Benchmark Regulation is that most of asset management companies in Slovakia have stopped using benchmarks. Instead, it purely provides a basis for performance comparison between fund and an index. This approach does not qualify as 'use of a benchmark' as per the Benchmark Regulation.

6.9. Anti-Money Laundering

There have been no relevant national regulatory developments in 2023 on AML.

6.10. Digital Finance & Cybersecurity

In the field of cyber security, the transposed version of the European regulations NIS and NIS2 for local purposes is reflected in the Act on Cyber Security. As required by this law, there are regular audits to verify compliance with this law.

In response to the DORA regulation, we are preparing an implementation roadmap in accordance with the Regulatory Technical Standards, which were only published as a final draft in January of this year. Meanwhile, we still await the second RTS set.

7. PENSIONS & PEPP

The Slovak government approved both a reduction in the upper limit of management fees in pension funds the reduction of levy to the pension pillar from 5.5% to 4.0%.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

At the end of the 2023, the amendment to the act on income tax was approved. The content of this was the tax exemption from redemption after three years of holding fund units. Unfortunately, following the parliamentary elections this amendment was abandoned, and the tax advantage did not take effect.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The National Bank of Slovakia, together with SASS, has launched a special educational project entitled '5 money'. The goal of the project is to increase financial literacy in Slovakia. It consists of a dedicated webpage, financial education for elementary and secondary schools, educational centres, webinars, activities for parents with kids and cooperation on other educational projects.

10. OTHER ACTIVITIES OF THE ASSOCIATION

SASS prepares weekly and monthly reports about the development in Slovak collective investment industry; these are available on the SASS webpage.

SASS organised two large conferences during 2023. The spring conference, entitled 'Next Steps in Asset Management' was held in Znojmo, Czech Republic and was organised in cooperation with Czech Association AKAT. In Autumn 2023, SASS organised its flagship conference 'Collective investment in Slovakia' in Jasna, Slovakia.

Every year, SASS declares the 'best fund' in several categories in the competition 'Top Fund Slovakia'. In 2023, Top Fund Slovakia 2022 was organised in virtual format, from the studios of Slovak economic daily newspaper

SLOVENIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Slovenia (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	3.1	3.4	4.7	4.4	5.5
Funds domiciled abroad and promoted by national providers					
Total net assets	3.1	3.4	4.7	4.4	5.5

Table 2: Net Sales of Investment Funds in Slovenia (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	82.6	148.4	460.1	208.0	338.3
Funds domiciled abroad and promoted by national providers					
Total net sales	82.6	148.4	460.1	208.0	338.3

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	1.9	2.1	2.9	2.6	3.2
Bond funds	0.2	0.3	0.3	0.3	0.3
Multi-asset funds	0.9	0.8	1.1	1.0	1.1
Money market funds	0.1	0.1	0.1	0.1	0.1
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.001	0.001	0.002	0.003	0.004
Total	3.0	3.2	4.3	3.9	4.8
of which ➤ ETFs					
➤ Funds of funds	0.1	0.1	0.1	0.1	0.1

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-0.1	97.9	285.9	149.3	200.7
Bond funds	53.5	22.0	27.3	-2.1	62.7
Multi-asset funds	38.5	13.1	161.9	37.8	12.4
Money market funds	-9.5	15.0	-15.6	22.4	61.8
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.2	0.3	0.7	0.7	0.7
Total	82.6	148.4	460.1	208.0	338.3
of which ➤ ETFs					
➤ Funds of funds	5.4	-7.3	0.4	-13.9	4.0

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	0.03	0.05	0.1	0.1	0.2
Other funds	0.1	0.1	0.3	0.4	0.5
Total	0.1	0.2	0.3	0.5	0.7
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 6: Number of Funds					
	2019	**2020**	**2021**	**2022**	**2023**
Home-domiciled UCITS	100	82	79	78	77
Home-domiciled AIFs	34	47	60	59	68
Foreign funds registered for sales	229	257	312	400	528
➤ **By national promoters**	124	111	120	119	138
➤ **By foreign promoters**	105	146	192	281	390
Fund launches		3		6	12
Fund liquidations		2		7	4
Fund mergers & acquisitions		19	3	1	

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

On undue costs, in alignment with amendments to the Securities Market Agency's implementing regulation, companies have either prepared or upgraded their costs and fees policies, and have published relevant disclosures on the topic.

The Securities Market Agency (the 'Agency' or the 'AVTP) was also part of the joint supervisory process as the competent supervisory authority. It verified the asset valuation practices of specific mutual funds or subfunds of umbrella funds and alternative investment funds, in accordance with the methodology established at the ESMA level. During its oversight activities, the Agency ensured compliance of management companies and AIFMs with the organisational requirements outlined in ZISDU-3, ZUAIS, Regulation 231/2013/EU and related regulations. It also assessed the consistent application of valuation principles and methodologies to ensure accurate financial reporting (fair presentation of financial position), both under normal circumstances and during stress situations. No operational irregularities or violations of applicable rules were uncovered during the supervisory review that necessitated the implementation of supervisory measures.

The Agency will continue its regular monitoring of investment fund asset valuation, taking into consideration recommendations from ESMA's report.

5.2. MiFID II

EMT and EET forms are not mandatory, therefore their use and distribution depend on financial institutions. Clearly, they are particularly beneficial for companies engaging with partners that do require submission of an EMT or EET form.

5.3. CSDR

Our NCA did not introduced or notice any changes. In our market, penalties/credits are received at custodian level and are not placed to the fund.

The adjustment in settlement time in the US is unlikely to significantly affect Slovenian management companies. This modification is not expected to lead to changes in the settlement time for investment funds.

5.4. EMIR

Our members do not trade in or manage derivative portfolios.

5.5. ELTIF

Slovenia does not (as yet) have ELTIFs.

5.6. Sustainable finance

Some of our members have successfully navigated the complexities associated with the Level 2 implementation of the Sustainable Finance Disclosure Regulation (SFDR). They have prepared the requisite disclosures meticulously, in alignment with regulatory standards and proactively engaged our National Competent Authority (NCA) to ensure full compliance and transparency.

According to our current understanding, while direct reporting under the Corporate Sustainability Reporting Directive (CSRD) may not be immediately mandatory for asset managers in Slovenia, the broader implications for the sector are significant. Many entities within the local financial landscape operate under larger financial conglomerates that do fall within the purview of the requirements. Consequently, our operations could be indirectly affected, necessitating involvement in consolidated reporting efforts. This evolving situation poses a unique set of challenges, particularly in seeking to align our reporting processes with the group's overarching sustainability framework.

In our journey to robust, responsible investment strategies, sourcing reliable Environmental, Social and Governance (ESG) data has been a priority. Our members have engaged with multiple data providers to assess the quality and relevance of their ESG metrics, seeking a solution that aligns with our responsible investment policy. Following extensive evaluations, most have established a partnership with a chosen provider whose data integrity and analytical capabilities best support our objectives in sustainable investing. This partnership enables us to navigate the complexities of ESG reporting and disclosure with greater confidence and precision.

5.7. Stewardship

Certain management companies have voluntarily increased their involvement in active ownership measures, in particular establishing systems to systematically exercise voting rights and other shareholder entitlements on a global scale.

5.8. Benchmarks

There has been no notable activity at national level, and these changes are anticipated to bring minimal impact.

5.9. Anti-Money Laundering

In April 2023, the Securities Market Agency issued Guidelines for the Prevention of Money Laundering and Financing of Terrorism with the aim to uniform understanding and implementation of provisions of the relevant act (ZPPDFT-2). The new guidelines entered into force on 8 April 2023. In these, guidelines are provided for implementing the provisions of ZPPDFT-2. In particular, it covers those referring to: risk assessment and management, elements of customer due diligence, special types of customer due diligence, reporting obligations to the Office for Money Laundering Prevention and the appointment of authorised personnel, training and internal control.

On 27 May 2023, bylaw rules came into force on the technical requirements for video-based electronic identification devices.

On 27 July 2023, bylaw rules came into force on the technical conditions that must be met by safe remotely controlled or electronic procedures and means of identification.

On 15 July 2023, a decree came into force on the definition of functions that qualify as prominent public functions in the Republic of Slovenia.

On 9 March 2023, bylaw rules came into force on performing internal controls, authorised persons, the storage and protection of data, professional training, and management of records by obliged persons.

On 9 March 2023, bylaw rules came into force on low risk and increased risk factors for money laundering and terrorist financing.

On 18 February 2023, bylaw rules came into force on the performance of internal control, authorised persons, the storage and protection of data, professional training, and management of records by obliged persons.

On February 21, 2023, Decree on activities of low risk for money laundering and terrorist financing came into force.

5.10. Digital Finance & Cybersecurity

There were no notable developments in this area in 2023.

5.11. Other regulatory developments

The Securities Market Agency has enacted a decision modifying and amending the decision on the terms and conditions for the distribution of units of investment funds. These changes aim to differentiate between the distribution of investment funds and investment advisory services.

6. PENSIONS & PEPP

There were no notable developments in this area in 2023.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The new Act on Reconstruction, Development and Provision of Financial Resources was adopted. This introduced a tax rate of 22% for calculating corporate income tax from the tax base for the years 2024-28. (The general rate for calculating corporate income tax otherwise is 19%).

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

At the Ministry of Finance level, an inter-ministerial working committee has been established to develop a National Financial Literacy Programme. The committee is comprised of representatives from the Ministry of Education and from industry. Changes to the school curricula are anticipated in the forthcoming period as a result.

In 2023, the Slovenian Institute for Adult Education initiated a project on financial literacy for adults as part of the Recovery and Resilience Plan (RRP). This falls under the pillar of Smart, Sustainable, and Inclusive Growth, specifically Component 5 'Strengthening competences, including digital competences and those requisite for emerging occupations'. The primary goal of the project is to develop guidelines for developing publicly available, non-formal adult education programmes.

In the same year, the Ministry of Education issued a call for proposals to launch the 'Digital Teacher' project. This initiative aims to enhance the competencies of education professionals in the areas of digital, sustainability and financial literacy as well as to foster active, self-learning communities.

At ZDU GIZ, we take part in working and expert groups in all three of the aforementioned projects. In addition, we undertake a number of financial literacy activities at the ZDU GIZ level, including:

- Organising complimentary educational webinars featuring external experts talking on diverse contemporary topics. These are made available free of charge on our YouTube channel and website. Examples include:
  - A review of stock market developments in 2022 and the outlook for 2023 (February 2023): https://zdu-giz.si/financno-opismenjevanje/
  - Insights into a mutual fund manager's daily activities (June 2023): https://zdu-giz.si/financno-opismenjevanje/
  - Discussion on macroeconomic factors and their influence on capital markets (October 2023): https://www.youtube.com/watch?v=YQCgvhTiRH0

- Special presentation: 'The Future is Now! Exploration of Artificial Intelligence in the Financial World' (December 2023): https://www.youtube.com/watch?v=-Q0T66a_PV0

- Regular posting valuable information, event invitations and statistics on our LinkedIn and Facebook profiles: https://www.linkedin.com/company/76569245/admin/feed/posts/, https://www.facebook.com/zdruzenjedruzbzaupravljanjeinvesticijskihskladov

- Taking part in educational events organized by other relevant institutions in Slovenia.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Publications

- Conducting and presenting the 'Sustainable Finance' survey, conducted in collaboration with IPSOS agency, and subsequent dissemination and publication of survey findings.
- Publication, analysis, and graphical presentation of statistics on investment funds on our website, as well as sharing on ZDU GIZ's website as well as on Facebook and LinkedIn platforms.

Conferences, seminars and webinars

- Organising four webinars per year (as presented above);
- Conducting training and proficiency tests twice-yearly on the distribution of investment funds
- Hosting an annual seminar on anti-money laundering (AML);
- Holding a twice-yearly press conference to present the industry activities and discuss current topics.

Videos/podcasts:

- LinkedIn, YouTube and Facebook posts.

SPAIN COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	306.3	302.3	347.1	322.7	364.1
Funds domiciled abroad and promoted by national providers	9.0	12.0	22.0	18.0	24.0
Foreign-domiciled funds promoted by foreign providers	195.0	220.0	287.0	245.0	265
Total net assets	510.3	534.3	656.1	585.7	653.1

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	1,773.0	1,105.0	25,726.0	17,215.0	18,311.0
Funds domiciled abroad and promoted by national providers					
Total net sales	1,773.0	1,105.0	25,726.0	17,215.0	18,311.0

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	81.5	79.9	124.6	117.0	60.0
Bond funds	72.9	73.1	79.9	92.2	126.5
Multi-asset funds	75.8	81.2	87.1	65.7	119.8
Money market funds	3.8	4.6	4.5	5.2	10.5
Guaranteed/protected funds	0.4	0.3	0.3	1.6	3.0
Absolute Return Innovative Strategies (ARIS) funds	11.5	7.7	7.6	7.1	6.7
Other funds					
Total	245.8	246.8	304.0	288.7	326.4
of which ➤ ETFs	0.2	0.2	0.3	0.2	0.2
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-1,278.0	-549.0	8,539.0	-2,313.0	-3,431.0
Bond funds	9,077.0	4,019.0	7,006.0	19,434.0	29,754.0
Multi-asset funds	763.0	166.0	10,828.0	-3,492.0	-16,325.0
Money market funds	-774.0	800.0	-89.0	797.0	5,046.0
Guaranteed/protected funds	194.0	-8.0	-18.0	1,209.0	1,332.0
Absolute Return Innovative Strategies (ARIS) funds	-2,525.0	-1,457.0	2,199.0	9.0	-538.0
Other funds					
Total	5,457.0	2,971.0	28,465.0	15,644.0	15,838.0
of which ➤ ETFs	-102.0	40.0		-30.0	-43.0
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	6.9	6.4	0.8	1.2	1.3
Bond funds	10.4	8.7	8.6	8.6	11.6
Multi-asset funds	22.7	22.3	20.0	10.4	10.4
Money market funds					
Guaranteed/protected funds	17.4	15.1	10.2	9.9	10.0
Absolute Return Innovative Strategies (ARIS) funds	0.3	0.2	0.01	0.01	0.01
Real estate funds	0.3	0.3	0.3	0.3	0.3
Other funds	2.6	2.5	3.1	3.6	4.1
Total	60.5	55.4	43.1	34.0	37.7
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-964.0	-163.0	465.0	59.0	3.0
Bond funds	-2,075.0	-652.0	-378.0	987.0	2,238.0
Multi-asset funds	513.0	319.0	110.0	-32.0	-65.0
Money market funds					
Guaranteed/protected funds	-1,199.0	-1,198.0	-3,330.0	598.0	157.0
Absolute Return Innovative Strategies (ARIS) funds	-102.0	-62.0	-13.0	-2.0	
Real estate funds					
Other funds	143.0	-110.0	407.0	-39.0	140.0
Total	-3,684.0	-1,866.0	-2,739.0	1,571.0	2,473.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	2,175	2,245	2,459	2,657	2,764
Home-domiciled AIFs	569	520	409	403	428
Foreign funds registered for sales	1,033	1,048	1,074	1,095	1,115
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

In 2023, assets under management in the collective investment industry increased by a significant 11.5%, to EUR 653.1 billion. This was thanks in part to the excellent returns experienced in financial markets and also to the continuous inflows registered by unit holders. Despite the complex economic environment (high inflation rates, increasing interest rates and fears over a weak economic growth) and continuing geopolitical conflicts, financial markets - both equity and bonds - outperformed the market. This saw outstanding returns that were even greater than in 2021, when only equity markets overperformed.

The increase in the total AuM had a greater impact on home-domiciled funds, of over EUR 41 billion. These registered a new all-time high (EUR 364.1 billion), thanks to financial market performance and also to positive net sales of these Funds. In addition, foreign-domiciled funds experienced a notable increase in their AuM (EUR 20 billion), although redemptions were recorded in 2023, market valuations allowed to close the gap with the maximum registered in 2021 (EUR 287 billion) and recover from the decreased in AuM experienced in 2022.

Domestic UCITS and AIF assets under management reached EUR 364.1 billion, a remarkable increase of 12.9% (up EUR 41.4 billion on 2022). In the past five years, UCITS fund assets have risen in a remarkable EUR 80.6 billion, with only one in five years - 2022 - recording a decrease in assets due to the market turmoil. The AIF market rose by EUR 3.7 billion.

The behaviour of unitholders in 2023 continued the trend observed in 2022, opting for less-risky options. For example, money market funds registered net sales for EUR 5.0 billion (EUR 0.8 billion in 2022) and bond funds recorded inflows for EUR 29.7 billion (EUR 19.4 billion in 2022). Meanwhile, equity funds recorded outflows for second year in a row (EUR 3.4 billion). Multi-asset funds also recorded strong outflows (EUR 16.3 billion).

Overall, domestic funds recorded net sales of EUR 18.3 billion, thus confirming the excellent investor confidence.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

The Spanish Securities Market Supervisor (CNMV) has approved technical guide '1/2023', strengthening the transparency of Collective Investment Schemes (CIS) with a specific profitability objective, and fixed income CIS with a buy-and-hold strategy.

The main objective of this guide is to reinforce certain aspects of the 2017 edition, from the point of view of the informed consent of the investor. It also seeks to extend the obligation to include certain warnings over risks and liquidity in fixed income CIS with investment policies similar to funds with a specific target return, which are structured, like these, with a fixed income portfolio held until maturity (buy-and-hold strategy).

Rodrigo Buenaventura, President of the CNMV, in his speech at an event in May, set out a vigorous defence of the consistency of the collective investment sector in Spain, in terms of liquidity and systemic risk.

6.2. MiFID II

The CNMV has updated its MIFID Q&A, including on several issues relating to operations with agents in the provision of investment services:

- **Agent remuneration systems: The CNMV** advises including qualitative criteria based on compliance with the rules of conduct by agents. It also suggests establishing remuneration schemes that adjust to the principle of neutrality, so that they do not favour some products over others and do not include accelerators.

- **Provision of advisory services by agents:** Agents cannot provide their own advice autonomously. The CNMV has established, in greater detail, the advisory criteria and methodologies used by agents. These include, for example, implementing control systems that allow entities to verify that agents reasonably comply with the centralised instructions.

- **Prescribing agent:** The CNMV reiterates that the activity of marketing investment services and activities, as well as attracting clients, is a reserved activity. This can only be undertaken by companies authorised to provide investment services, or their agents (who may be mere presenting agents).

6.3. CSDR

According to the data provided by Spanish CSD, settlement in general improved in 2023 (we do not have data on how the improvement correlates to the existence of cash penalties). In Spain, the supervisory authority´s criterion is that ManCo bears the penalties and credits received are passed to the fund.

6.4. EMIR

We do not have any feedback on relevant difficulties/issues on this topic.

6.5. ELTIF

Until the corporate income tax rate is reduced by at least 1%, as is the case for the rest of CIS in Spain, there will not be much interest in ELTIF funds from investors.

Indeed, in Spain - unlike in other neighbouring countries - there is no special tax regime for ELTIF. It is therefore taxed at the general corporate tax rate (25%), with the double taxation that this entails for investors.

Exception: those located in the territories of Vizcaya and Álava have a special tax regime. They are subject to a reduced corporate income tax rate of 1% (like the CIS in Spain), if they meet certain requirements.

6.6. Sustainable finance

We are not aware of any Spanish Asset Manager reporting under CSRD.

For finding reliable ESG data and ratings, we understand that asset managers rely mainly on external data providers.

6.7. Stewardship

In February 2023, the CNMV approved the first Spanish Stewardship Code. Below, we highlight the main characteristics of the Code:

1. Voluntary nature: Adherence to the Code is voluntary. Partial adherence is not considered, except during the transitional period.

2. Principles: Under the 'apply and explain' criteria, the Code has seven principles. (1) Long-term strategy; (2) knowledge and monitoring of companies; (3) the development and publicity of the engagement policy; (4) the exercise of the voting rights; (5) the transparency of the engagement and voting actions carried out and their results; (6) the conflict-of-interest policy and (7) the remuneration policy.

3. Proportionality: Each principle includes clarifications and expectations that seek to facilitate its application.

In November, the CNMV also published a set of Q&As to clarify the application of the Stewardship Code.

Currently, four asset management companies are signatories.

6.8. Benchmarks

There were no notable developments in this area in 2023.

6.9. Anti-Money Laundering

The regulation on the beneficiary´s owner central registry was approved (Royal Decree 609/2023 of 12 July).

6.10. Digital Finance & Cybersecurity

There were no notable developments in this area in 2023.

6.11. Other regulatory developments

A Royal Decree regulating (i) reporting obligations on foreign investments in Spain and national investments abroad and (ii) exemptions/suspension to the general regime of freedom of investments has been approved. (A regulation on this topic already existed, which has been repealed by this new regulation: Royal Decree 571/2023, of 4 July.)

7. PENSIONS & PEPP

There were no notable developments in this area in 2023. The Spanish government published a draft law in December 2022 providing for a sanctioning regime in connection with PEPP, but this has yet to be approved.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

A draft of the Law transposing Directive 2022/2523 has been approved by the government, and is pending approval by parliament.

A Royal Decree for the transposition of DAC 7 was approved by the Government. In addition to the transposition of DAC 7, it includes certain amendments to the national legislation implementing DAC 6 deriving from (i) subscription by Spain to OECD agreements on exchange of information and (ii) resolution of the EU Tribunal of Justice on matter C-694/20 (Royal Decree 117/2024, of 30 January).

The approval of an amendment on both the personal income tax and the corporate tax regulations, to establish the exemption of withholding for capital gains deriving from operations with foreign ETFs (Real249/2023, of 4 April).

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The Strategic Plan on Financial Literacy in Spain lasts until 2025 (2022-2025).

On financial education, Inverco has contributed through:

- The 'Inverco Observatory' (http://www.observatorioinverco.com/), which aims to spread and explain the characteristics and advantages of investments funds and pension plans. The Observatory undertook the following activities during 2023:
  - 3rd survey of asset managers on sustainability strategy: The perception of Asset Managers in relation to different aspects of the application of the new Regulation. This sought to analyse how they are incorporating ESG strategies into their portfolios.
  - Survey on the perception of asset managers on various topics; prospects for 2023, situation of the industry following the pandemic, the creation of new products, financial education and the profile of unitholders.
  - 8th Edition of the 'savings barometer'
  - Report on assets invested in CIS per Spanish regions.
  - Articles and interviews in press
  - Educational sessions with the specialist financial media
  - 4th Edition of 'Rumbo a tus sueños'. This is a financial training programme for young students. Volunteers from asset management companies explain the relevance of setting clear objectives and of saving and investing properly to achieve them. The goal is to explain different basic financial concepts to vocational students who are not studying finance as part of their curriculum.
  - 5th report on financial education initiatives undertaken by asset managers. The aim of the report is to bring together the main initiatives in financial education and show their relevance to society as a whole.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Publications

- 01/12/2023 – Newsletter November 2023
- 21/07/2023: Newsletter July 2023
- 09/05/2022: Newsletter May 2023
- 27/02/2023: Newsletter February 2023

Link to newsletters: https://www.inverco.es/archivosdb/nuevo-registro-webfeb24.pdf

SWEDEN COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1a: Net Assets by the Fund Industry in Sweden (EUR billion)

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	421.2	479.9	610.4	495.2	584.6
Funds domiciled abroad and promoted by national providers	53.2	52.9	54.1	40.2	30.3
Total net assets	474.4	532.8	664.5	535.4	614.9

Table 1b: Total Assets by Fund Type in Sweden (domiciled home and abroad) (EUR billion)

	2019	2020	2021	2022	2023
Equity funds	288.8	335.4	439.2	343.7	409.0
Bond funds	70.1	76.5	81.3	71.7	76.8
Multi-asset funds	110.4	116.3	166.3	113.7	123.8
Money market funds					
Other funds	5.2	4.6	5.1	6.4	5.3
Total	474.5	532.8	691.9	535.4	614.9
of which > ETFs	4.2	4.1	4.9	4.7	5.6

Table 2a: Net Sales of Investment Funds in Sweden (EUR million)

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	14,078.5	6,595.3	20,342.5	5,343.8	12,597.1
Funds domiciled abroad and promoted by national providers	-2738.8	-1082.3	-1498.4	-3040.4	-2743.8
Total net sales	11,339.7	5,513.0	18,844.1	2,303.4	9,853.3

Table 2b: Total Net Sales by Fund Type in Sweden (domiciled home and abroad) (EUR million)

	2019	2020	2021	2022	2023
Equity funds	5,251.0	5,308.0	8,233.0	795.7	9,272.7
Bond funds	5,459.0	2,202.0	6,193.0	855.7	2,356.4
Multi-asset funds	1,216.0	-1,276.0	4,091.0	-823.1	-1,043.4
Money market funds					
Other funds	-585.0	-721.0	327.0	1,475.0	-732.6
Total	11,341	5,513	18,844	2,303	9,853.1

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	260.2	306.7	404.0	318.4	388.3
Bond funds	55.7	60.8	67.0	62.7	69.8
Multi-asset funds	82.2	87.7	108.5	88.8	99.0
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.1	0.1	0.1	0.2	0.1
Other funds	0.02	0.02	0.1	0.2	0.3
Total	398.4	455.3	579.8	470.2	557.5
of which ➤ ETFs	4.0	3.8	4.7	4.6	5.4
➤ Funds of funds	42.5	45.4	58.1	48.3	52.9

Table 4: Net Sales of UCITS by Fund Type (EUR million)

	2019	2020	2021	2022	2023
Equity funds	6,563.7	5,662.2	8,319.5	1,699.7	11,604.1
Bond funds	5,285.4	3,087.7	7,438.2	3,450.4	2,788.7
Multi-asset funds	2,641.7	-1,077.8	2,711.7	-565.0	-1,123.6
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-17.2	-41.2	-0.2	66.3	-54.1
Other funds	-0.6	1.0	8.2	20.6	9.9
Total	14,473.0	7,632.0	18,477.5	4,672.1	13,225.0
of which ➤ ETFs	533.0	-407.7	-155.5	693.2	252.6
➤ Funds of funds	3,268.2	253.2	3,449.0	503.7	791.2

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)

	2019	2020	2021	2022	2023
Equity funds	7.7	10.0	13.7	9.7	11.0
Bond funds	1.7	1.6	1.5	1.2	1.3
Multi-asset funds	9.0	10.5	12.6	10.4	11.7
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	1.4	1.0	0.9	0.9	0.7
Real estate funds					
Other funds	3.1	1.4	1.8	2.8	2.3
Total	22.8	24.6	30.6	25.0	27.1
of which ➤ ETFs	0.2	0.2	0.2	0.2	0.2
➤ Funds of funds	11.4	12.1	14.1	11.3	14.0
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)

	2019	2020	2021	2022	2023
Equity funds	-185.6	525.1	930.4	-238.3	-392.3
Bond funds	346.9	-133.6	-44.5	-104.5	83.9
Multi-asset funds	239.0	-103.1	686.4	237.6	276.2
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-300.3	-401.0	-81.1	-62.5	-81.3
Real estate funds					
Other funds	-494.6	-924.1	373.9	839.4	-514.4
Total	-394.6	-1,036.7	1,865.1	671.8	-627.9
of which ➤ ETFs	16.5	55.1	14.2	10.2	-7.5
➤ Funds of funds	3.6	-330.9	100.9	-136.7	-254.2
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds

	2019	2020	2021	2022	2023
Home-domiciled UCITS	537	545	559	582	595
Home-domiciled AIFs	98	94	107	126	117
Foreign funds registered for sales	9,621	9,575	11,819	12,867	13,478
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

Table 1a:
Total net assets increased by EUR 79 billion in 2023, reaching EUR 615 billion at the year end. This 15% growth was due to both higher asset prices and the relatively large net inflows. Since year-end 2019, the total AuM in Sweden have increased by EUR 140 billion (30%).

Table 1b:
All fund types, with the exception of 'other' funds, experienced an increase in net asset in 2023.

Table 2a:
Total net sales of funds amounted to EUR 9.9 billion in 2023, an increase on 2022 but in line with the average for the last five years.

Table 2b:
Positive equity markets in 2023 led to equity funds dominating the net sales of funds, reaching EUR 9,273 million. Bond funds also received net inflows, while multi-asset funds and other funds experienced outflows.

Table 3:
Mainly as the result of positive stock market development, Swedish UCITS saw an increase (EUR 87 billion or 19%) in AuM during 2023.

Table 4:
Total net sales of UCITS amounted to EUR 11.6 million in 2023. Equity funds recorded the largest net inflows.

Table 5:
Swedish AIF assets increased by EUR 2 billion in 2023. Total net sales of AIF amounted to EUR -628 million in 2023.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

Swing pricing was introduced as a liquidity tool in Swedish Fund legislation in July 2023. Only partial swing is allowed.

There has been no great focus on 'undue costs'. This is basically because Swedish UCITS are not allowed to charge costs to the fund other than the management fee.

The Swedish NCA Finansinspektionen (FI) have communicated that the management companies need to check that their internal guidelines on valuation are accurate and up to date. FI also highlighted that the valuation process of corporate bonds needs to be prepared for valuation in the absence of bond quotes.

6.2. MiFID II

FI has published, on its website, the ESMA supervisory briefing on the understanding of the definition of advice under MiFID II.

Management companies regularly complete the EMT and EET templates. We know that EMT plays a major role, and we hope that EET will also.

6.3. CSDR

We have had no feedback from FI and no information on the impact on settlement fails. There is no uniform manner for handling the issue of cash penalties by Swedish fund management companies.

Swedish funds (normally) have a settlement cycle of T+1 or T+0. This short settlement cycle exists for historical reasons. When fund saving took off for retail clients in the 1980s, it competed with savings accounts; therefore, the funds had to match their service in terms of swift access to savings. The US move to T+1 does nevertheless impose certain challenges: Can funds trading in US equities keep their cut-off time (or does it have to be set earlier, in to get the FX trades in place)? Does the fund manager need to have staff available outside office hours to check the US trades?

6.4. EMIR

There has been little reaction to the new EMIR RTS on derivatives trade reporting. FI has informed ESMA that it will comply with the guidelines.

6.5. ELTIF

We do not foresee ELTIFs being set up in Sweden in the near future. This is due to the lack of a suitable national framework for fund vehicles and unclear tax treatment of the funds. However, the Swedish Government has launched a public investigation on a better framework for ELTIFs.

6.6. Sustainable finance

During the year, one of the FI's priority areas was greenwashing. This emphasis was evident in the supervisory activities and investigations conducted on firms within the financial sector by the regulatory body.

Specifically, FI investigated how fund managers went about integrating sustainability risks and disclosing sustainability-related disclosures. This review was part of a joint supervisory activity among supervisory authorities in the EU member states (CSA), and was against the background of ESMA efforts to achieve a uniform approach within the EU Member States. This in-depth analysis targeted fund management companies and alternative investment fund managers catering to retail investors. Its goal was to ensure compliance with sustainability risk integration and disclosure practice regulations, aiming to prevent instances of greenwashing.
In parallel with the aforementioned review, FI also conducted an in-depth investigation into how investment firms, fund managers and Alternative Investment Fund Managers (AIFMs) integrate sustainability into their operations. This aimed at understanding how companies incorporate sustainability into their operations that require permits and to review their compliance with regulations on the integration of sustainability risks.

Sourcing reliable ESG data has been, and continues to be, a significant challenge for all financial market participants.

6.7. Stewardship

A revision of the Swedish Companies Act, permitting shareholders' meetings to be held in fully digital formats, came into force on 1 January 2024. This led to the Swedish Corporate Governance Board to augment its Code in 2023, so that the company chair, and as many members of the board as are required for a quorum, are to be present at shareholders' meetings. The CEO is also required to attend. There was a strong opposition from the Swedish Fund Management Companies to the revised Act, and there is a general expectation for Swedish companies to comply with the Code.

Multiple voting rights, combined with strong minority safeguards, have been an important feature of the Swedish stock market for a hundred years, contributing to the success of Swedish companies and the strong market performance.

6.8. Benchmarks

There has been little reaction to the proposal to remove non-significant benchmarks from the scope of the Benchmarks Regulation. We do not foresee any major impact.

6.9. Anti-Money Laundering

The FI has updated its regulations on anti-money laundering and countering the financing of terrorism. This is in order to conform to the EBA Guidelines on policies and procedures for compliance management and the role and responsibilities of the AML/CFT Compliance Officer. The updated regulation will come into force in March 2024.

6.10. Digital Finance & Cybersecurity

In 2023, the Swedish Government began work on developing a new strategy on information and cybersecurity. An important starting point in this is the implementation of the NIS2 Directive.

FI has stated that it will not authorise exchange-traded funds that invest primarily in assets related to cryptocurrencies.

7. PENSIONS & PEPP

Sweden has adopted supplementary provisions to the PEPP regulation in order to align its law with the Regulation. These lay down uniform rules for the registration, development, distribution and supervision of PEPPs; they entered into force on 1 January 2023. To date, the FI has not registered any PEPP on the Swedish market.

The Swedish national pension system has been the subject of extensive and prolonged debate. The premium pension system, where a small portion of the pillar one pensions are invested into UCITS funds, is currently subject to substantial change.

As a first step, new legislation entered into force in 2018. New and stricter rules on the marketing and distribution of premium pension products and services have been in force since 1 July 2018. As of 1 November 2018, new rules applied to those UCITS funds wishing to participate in the premium pension system. The measures on funds and managers, both quantitative and qualitative requirements, are aimed at reducing the risk of unprofessional fund operators within the system.

Furthermore, an independent inquiry presented a report, in November 2019, with proposals that would fundamentally change the premium pension system. New legislation, involving a new procurement regulation for premium pension funds, entered into force in 2022. The first procurement of the first fund category, out of about 30 categories, began in 2023. It is expected that the procurement process would severely limit the number of funds available in the system. The Association has been strongly critical of these changes, arguing that they will not benefit pension system end-users and that they risk distorting competition.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There were no notable developments in this area in 2023.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The Swedish Investment Fund Association (SIFA) is active in the Swedish National Network on Financial Education, a set of nationwide educational initiatives on personal finances. The network - a cooperation between authorities, organisations and financial firms - was initiated by the Swedish Ministry of Finance and is coordinated by the FSA. The goal is to improve consumer understanding of their finances through educational initiatives; the network trains instructors who can then spread knowledge to others. SIFA is responsible for the fund saving element of the training.

SIFA is a co-financer of 'Ung Privatekonomi' ('Young Personal Finances'), a school information project providing personal finance and savings education for more than 35,000 pupils in Sweden's upper secondary schools every year. The underlying concept is 'youth meet youth'. The talks and educational materials are made available to upper secondary schools free of charge, with the project being financed by a number of organisations, including the SIFA. It employs communicators throughout Sweden, covering as many upper secondary schools as possible.

SIFA's 'Fondkollen' ('Fund Check') initiative provides a financial education website with interactive tools such as an investment calculator, 'check my fund' and 'find a new fund'. The aim of Fondkollen is to boost savers' financial self-confidence. SIFA's savings economist regularly shares savings tips on the website and promotes it on social media.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Publications

SIFA publishes a monthly newsletter, which is open to everyone interested in keeping up with the Association's activities.

A members-only newsletter, in Swedish and English, was distributed to all member companies five times during the year.

An annual report on the fund savings in Sweden 2022 was published in January and was launched at a press conference.

There were surveys undertaken on fund preferences among men and women, on sustainable savings and on savings for children.

Conferences and seminars

The largest annual conference 'Fonddagen' ('Fund Day') was held in May. The Swedish Minister of Financial Markets, Niklas Wykman, gave the opening address. Daniel Barr, Director of the Financial Supervisory Authority, gave a speech on the authority's priorities for the year. The programme also included a debate on corporate governance, an interview on the geopolitical developments, a speech about how AI might influence the asset management industry and information from the new Swedish Fund Selection Agency. The conference closed with a historical retrospective from the well-known economic historian Gunnar Wetterberg.

Several seminars were organised during the year on topics such as the Russian economy one year following the invasion, the DORA legislation, the fund industry and climate issues, the retail investment strategy and the Swedish governance model.

Videos/podcasts

Podcasts about PRIIP, the Swedish Fund Selection Agency, Ung Privatekonomi ('Young Personal Finances') and green bonds.

Several short videos, explaining how fund saving works, were distributed via social media.

SWITZERLAND COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	612.5	660.3	777.3	756.6	883.0
Funds domiciled abroad and promoted by national providers	156.2	173.5	171.1	139.4	162.7
Total net assets	768.7	833.8	948.4	895.9	1,045.7

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	73,853.0	29,475.1	34,946.8	56,455.2	38,643.4
Funds domiciled abroad and promoted by national providers	8,749.5	14,986.3	19,175.4	15,087.0	
Total net sales	82,602.5	44,461.4	54,122.2	71,542.2	

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	215.8	226.0	300.3	268.4	325.8
Bond funds	180.2	194.1	215.0	200.2	229.4
Multi-asset funds	47.2	51.7	68.6	87.3	102.3
Money market funds	19.5	18.7	19.6	28.5	34.9
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	462.7	490.5	603.5	584.4	692.4
of which ➤ ETFs	5.3	6.2	8.0	7.8	9.8
➤ Funds of funds	19.8	21.7	26.3	33.8	41.0

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	9,646.3	-1,680.2	10,770.7	6,880.9	15,356.1
Bond funds	18,146.8	12,961.1	15,057.2	7,052.6	8,658.4
Multi-asset funds	4,622.3	6,588.1	8,260.1	29,942.8	3,997.1
Money market funds	3,582.9	369.6	-407.8	7,755.4	5,595.7
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	35,998.3	18,238.5	33,680.3	51,631.6	33,607.2
of which ➤ ETFs	691.9	606.0	310.9	1,006.5	1,204.5
➤ Funds of funds	2,193.8	1,210.1	2,484.0	4,464.3	2,220.2

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	36.1	39.5	44.6	46.7	46.8
Other funds	113.7	130.3	129.3	125.5	143.9
Total	149.8	169.8	173.9	172.2	190.7
of which ➤ ETFs	12.3	15.4	15.7	15.9	18.0
➤ Funds of funds	10.6	11.0	13.7	20.4	23.9
➤ Institutional funds	86.3	100.4	101.1	89.2	99.1

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	**2020**	**2021**	**2022**	**2023**
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	367.7	1,161.4	4,741.1	-553.4	207.4
Other funds	37,487.1	10,075.2	-3,474.5	5,377.0	4,828.7
Total	37,854.8	11,236.5	1,266.5	4,823.6	5,036.1
of which ➤ ETFs	5,738.0	790.3	5,222.2	-576.3	2,276.9
➤ Funds of funds	83.9	421.3	899.4	1,142.9	1,144.1
➤ Institutional funds	28,024.7	6,549.7	-3,006.3	3,587.0	818.5

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	**2020**	**2021**	**2022**	**2023**
Home-domiciled UCITS	931	940	1,008	1,017	1,053
Home-domiciled AIFs	187	186	187	182	176
Foreign funds registered for sales	8,172	8,133	8,357	8,578	8,526
> By national promoters					
> By foreign promoters					
Fund launches					
> Home-domiciled UCITS and AIF	106	120	131	57	57
> Foreign funds registered for sales	181	136	242	247	247
Fund liquidations					
> Home-domiciled UCITS and AIF	96	79	56	2	2
> Foreign funds registered for sales	107	175	18	26	26

5. MARKET DEVELOPMENTS IN 2023

A strong final quarter on the stock markets led to a positive outcome for the Swiss fund and asset management market for 2023. Thanks to performance gains and - to a lesser extent net new money - the volume of the Swiss fund market rose by 3.7% to CHF 1,371 billion. AMAS expects assets under management for the entire Swiss asset management market (including discretionary mandates) to increase by around 5% to CHF 3,020 billion (compared to the previous year's CHF 2,878 billion).

In the Swiss fund market, assets under management rose by CHF 49,227 million to CHF 1,371,280 million by the end of 2023. Despite a strong start to the year and a year-end rally, most investors remained risk averse in 2023. CHF 43.3 billion or 3.3% of the increase in assets under management in the Swiss fund market arose from market performance.

6. REGULATORY DEVELOPMENTS

6.1. CSDR

Settlement T+1

According to currently information available, stock exchanges in the USA, Canada and Mexico will change their settlement cycle from two days (T+2) to one day (T+1) at the end of May 2024. This will affect all transactions permitted on these North American exchanges executed via a regulated market or multilateral trading facility (MTF) or in over the counter (OTC) trading – unless the parties involved agree otherwise.

The main aim of shortening the settlement cycle is to reduce systemic risks. However, it also poses some logistical challenges and requires investments - for example in IT systems and technology - in order to achieve an even higher degree of automation. On 22 August 2023, AMAS published its Circular No. 04/2023 'Settlement T+1', which outlines some of the potential implications for the collective investment schemes of Swiss fund providers. Given the wide range of products affected, it is impossible to make general recommendations for adapting to the shorter settlement cycle. Each individual provider is therefore responsible for weighing up the relevant factors and deciding whether to shorten a fund's settlement cycle in line with its own parameters.

There may be additional regulatory challenges, in particular for mixed-asset funds that invest a significant portion of their assets in both North American and European securities. The inherent liquidity risk is overwhelmingly seen as an operational risk that - depending on the scenario - may result in temporary violations of the investment restrictions (too much cash) or the 10% borrowing limit. Portfolio managers should take suitable measures in advance to prevent any such violations.

6.2. Sustainable finance

Self-regulation on transparency and disclosure for sustainability-related collective assets
The first version (V.1) of the self-regulation entered into force on 30 September 2023. The Swiss asset management industry immediately began to implement this for existing products. Over 85% of sustainability-related Swiss funds already meet the requirements.

In Circular No. 05/2023, AMAS informed its members that the deadline for new products had been extended. Specifically, new products must comply with the self-regulation if the application for FINMA approval is submitted after 30 September 2024. The Association published a clear overview of the deadlines for entry into force on its website.

The many pertinent questions that arise in connection with implementing AMAS self-regulation on transparency and disclosure for sustainability-related collective assets of 26 September 2022 are dealt with in an FAQ. This is updated on an ongoing basis.

In its Circular No. 07/2023, AMAS also announced that the ESG building blocks had been published as an annex to self-regulation. These contain boilerplate text that members can use in the approval process or to update the contractual documents of sustainability-related collective investment schemes. As with the self-regulation itself, the building blocks will evolve through regular updates.

Greenwashing

The Federal Council called on the financial sector associations, on 25 October 2023, to expand their self-regulation on greenwashing. AMAS immediately informed its members and published a response on its website stating that it welcomes this move by the Federal Council. AMAS is firmly opposed to all forms essentially of greenwashing.

The integrity of financial products is vital to both the Swiss financial centre and the asset management industry. This also applies to financial products marketed as sustainable. With this in mind, AMAS has taken a number of measures to prevent greenwashing and safeguard the Swiss financial centre's credibility.

As its response points out, it has already published its self-regulation on transparency and disclosure for sustainability-related collective assets. The Association remains convinced that principles-based self-regulation is the most suitable instrument to prevent greenwashing.

The framework for sustainable asset management defines the organisational requirements for financial institutions as well as for product design and investor information to prevent and combat greenwashing. The quality of collectively managed sustainable investments is improved by binding standards, while transparency is enhanced through comprehensive documentation and information requirements.

AMAS will build on its self-regulation in dialogue with other financial sector associations and authorities, and will implement the Federal Council's position on preventing greenwashing. In return, the Federal Council will refrain from imposing further regulations.

The Association is not fundamentally opposed to principles-based state regulation on greenwashing, but it remains convinced that self-regulation is currently the best way to prevent greenwashing and thus implement the Federal Council's position.

While the Association fully supports the Federal Council's objective of making Switzerland a hub for sustainable finance, its view is that state regulation would hinder, rather than help, this. For Switzerland as a whole, AMAS firmly believes that the self-regulation published by the Swiss Bankers Association (SBA), and the one which will be published by the Swiss Insurance Association (SIA) shortly, already provides an effective and flexible framework for preventing and combating greenwashing throughout the Swiss financial sector in the future at all levels.

Were the Federal Council to propose principles-based regulation, it must cover all relevant actors in the industry and apply to all relevant financial products available on the market if it is to ensure a level playing field. Furthermore, any such regulation must always guarantee full compatibility with the relevant international regulations and avoid any kind of 'Swiss finish'. We expect the Federal Council and the Federal Administration to listen to the industry's concerns and take them on board during the legislative process.

AMAS would once again like to stress that it is prepared to play a part in this process from the outset. Efforts on the topic of greenwashing are already under way, both internally to develop the self-regulation and externally to draft the ordinance, with the SIF coordinating the latter.

Environmental indicators for real estate funds

At the UN Climate Change Conference in Paris at the end of 2015, a new agreement was signed for the period after 2020. Under this, all signatory states are obliged - for the first time - to reduce their greenhouse gas emissions. The aim is to limit the average rate of global warming compared to pre-industrial levels. Switzerland ratified the Paris Agreement in October 2017. The Federal Council then adopted a report and guidelines on sustainability in the financial sector in June 2020 and parameters for mandatory climate reporting by large companies in August 2021. FINMA clarified the disclosure requirements for climate-related financial risks for banks and insurers in May 2021, publishing guidance on preventing and combating greenwashing in November 2021. With the referendum on 18 June 2023 deciding in favour of the Climate and Innovation Act, the aim of reducing greenhouse gas emissions to net zero by 2050 is now enshrined in law.

In view of this, AMAS has also begun to address the subject of sustainability. It published environmental indicators for real estate funds, developed with the aid of a working group of its Real Estate Funds specialist committee set up in May 2022. FINMA was made aware of this work.

The environmental indicators are part of the Association's voluntary self-regulation on sustainability. They are set out in a separate section of the specialist information factsheet on the key figures of real estate funds. Detailed explanations of the indicators can be found in the appendix to AMAS Circular No. 04/2022 'Environmental indicators for real estate funds'. The deadline for the first mandatory publication of the indicators in the annual reports of all real estate funds was 31 December 2023.

Certain early adopter fund management companies had already published the indicators voluntarily in their real estate funds' annual reports. AMAS has used the resulting feedback to add notes on best practice to the specialist information factsheet on the key figures of real estate funds and the accompanying circular. This best practice does revise or reset of the indicators, it merely outlines the options available and points out where there is scope for interpretation.

This was published on 11 September 2023 as Circular No. 6/2023 'Best practice regarding the environmental indicators for real estate funds', and serves to stabilise the concept of the environmental indicators and ensure their comparability. It also contains reporting and auditing recommendations. The methodology for calculating the environmental indicators is summarised in an appendix, in order to provide a common standard to allow all indicators to be calculated and published in a consistent manner.

Immediate application of this best practice to the environmental indicators for real estate funds is recommended. It must be applied - at the very latest - in all annual reports with a cut-off date of 31 December 2024 or later. AMAS will continue to advocate the further development of the indicators during the implementation period, in particular for standardising data collection and coordinating with other associations.

Swiss Climate Scores

The Swiss Climate Scores (SCS) were launched on 29 June 2022 by the State Secretariat for International Finance. These make it possible to compare financial investments relating to the Paris Agreement on climate change, with its goal of decarbonising the economy by 2050 and limiting global warming to 1.5°C. The Scores aim to achieve greater transparency and comparability of the Paris alignment of financial investments. AMAS supported the federal government in drawing up the Scores and promotes their implementation among Swiss asset managers.

On 8 December 2023, the SIF published an amended set of Scores, including clarifications in response to feedback from the industry during implementation. This second version also contains optional questions on the investment objective relating to the climate. Financial institutions can state whether a financial product is intended to be Paris-aligned or to contribute to mitigating climate change and give their reasons. Exposure to renewable energy is now also covered, as well as exposure to fossil fuels.

The SCS consist of indicators that provide a meaningful and comparable information base on the Paris alignment of financial investments. They thus reflect a multidimensional approach that considers both the historical and current carbon performance of the product as well as the transition efforts – such as engagement and net-zero strategies – of the underlying assets.

All indicators are based on existing and internationally established criteria and methods:

Overall investment objectives regarding climate (new and optional)

Current state indicators:

1. Greenhouse gas emissions
2. Exposure to fossil fuels and renewable energy (new sub-indicator).

***Transition to net zero indicators*:**

3. Global warming potential (optional)
4. Verified commitments to net zero
5. Credible climate stewardship
6. Management to net-zero.

While the application of the SCS remains voluntary for financial institutions, the SIF intends version 2.0 to enter into force on 1 January 2025. It was not initially possible to apply the SCS to all forms of investment because not enough data were available. However, the scores have since gained acceptance in the Swiss financial industry, and their implementation has accelerated.

According to a survey by AMAS, at last 160 funds from various Swiss asset managers currently use the SCS. Further providers have announced that they will use them in the first few months of 2024. This should bring to 450 the total number of funds using them by March 2024.

6.3. Stewardship

Swiss Stewardship Code

On 4 October 2023, AMAS and Swiss Sustainable Finance (SSF) published the Swiss Stewardship Code. This is a set of guidelines for asset managers, asset owners and financial service providers to promote active dialogue and exercise shareholder rights by investors in Switzerland. Stewardship by investors is crucial to effective investing and promoting sustainable companies.

Investment stewardship is a responsible approach by which investors collaborate and interact with investee companies with the aim of generating long-term financial, environmental and social value. It has always been in used in the financial sector and the real economy. In recent years, however, stewardship - and more specifically voting and engagement - have become increasingly important. This is because investors have started to expand their goals to encompass positive change in the economy, in society and for the environment. Among the various sustainable investment approaches, stewardship has proven particularly effective in achieving positive impact, tackling sustainability-related challenges and addressing sustainability-related risks.

Unlike other sustainable investment approaches, such as exclusion, stewardship is aimed at collaborating with investee companies to lead them through the transformations required to reach positive outcomes that are sustainable over the long term. In the case of a climate goal, for example, it directly aims to decarbonise the real economy through active engagement with a company. An investment approach based on exclusion, meanwhile, would artificially decarbonise an investment portfolio without leading to any change in the real economy because the excluded company would be able to access funding from less-discerning investors.

At an international level, stewardship practices are rapidly evolving and being adopted. In many countries, the emergence of stewardship codes for investors complements a similar development in corporate governance codes for companies.

The Swiss stewardship landscape remains diverse and complex. Engagement and voting are conducted in different ways. Numerous financial institutions and investors have adopted their own unique approaches to stewardship, resulting in a lack of standardised practices and reporting frameworks. Consequently, investors – from asset managers to asset owners – often face challenges when it comes to understanding and comparing each other's stewardship efforts.

The Swiss Stewardship Code has several objectives:

- First, drawing up standards defining stewardship as a sustainable investment approach that proves effective in achieving positive impact on key sustainability-related challenges. Integrating stewardship into the Swiss investment industry's processes promotes a more-sustainable and value-adding economy and helps to increase long-term returns for investors, adjusted for sustainability risks.

- Second, providing a level playing field for Swiss stakeholders involved in stewardship activities, thus laying the foundation for greater transparency and better comparability of stewardship practices. The Federal Council stressed the need for transparency on stewardship strategies in its 2022-2025 sustainable finance action plan.

While the Code is focused on Swiss investor practices, it builds on the extensive local and international experience of AMAS and SSF members. Global standards and international best practices - such as the Global Stewardship Principles of the International Corporate Governance Network (ICGN), the UN Principles for Responsible Investing (PRI) and the UK Stewardship Code - provide investors with international stewardship benchmarks.

Being a good steward can be demanding. In particular, effective stewardship requires constructive collaboration and coordination between the various stakeholders. Written for practitioners by practitioners at AMAS and SSF member institutions, the Swiss Stewardship Code draws on the expertise of asset managers, asset owners and service providers. It takes account of their diversity in terms of size, business model and investment approach, and thus the different ways in which they approach stewardship. It represents a groundbreaking step to unifying and enhancing stewardship activities in Switzerland.

Collectively, asset owners, asset managers and financial service providers form an intricate web of responsible investing, each with unique roles and responsibilities. Together, they are advancing the cause of stewardship excellence, fostering a more sustainable and responsible financial ecosystem that benefits the economy as a whole.

The Swiss Stewardship Code is applicable on a voluntary basis, serving as a recommendation and guide to integrating stewardship into the investment process. Stewardship concerns the entire investment process and investment team, including responsibility for monitoring the portfolio, an escalation strategy and related capital allocation (including divestments).

The Code is comprised of nine stewardship principles and describes the key elements for effective and successful implementation. The key principles focus on recommendations for the two critical means through which stewardship is commonly achieved, namely voting and engagement in dialogue with companies. When it comes to engagement, for example, the Code emphasises the importance of active dialogue at different levels. Indeed, investors can do this individually or in collaboration with other investors or service providers in order to achieve even better engagement outcomes. Beyond their engagement with investee companies, investors may also decide to engage in with relevant public stakeholders and policymakers.

A critical aspect of the Code addresses the importance of defining the conditions under which an engagement is deemed to be failing, as well as those under which an escalation may be triggered. In the latter, relevant escalation steps may go as far as divestment. The Code also tackles key elements related to monitoring and reporting, as well as managing conflicts of interest and delegating stewardship activities.

The recommendations put forward in the Swiss Stewardship Code are applicable on a voluntary basis and pave the way to effective and successful stewardship in Switzerland. However, although the Code has been published, there is still a long way to go. All stakeholders must play their part in ensuring that its successful implementation in the months and years to come.

6.4. Digital Finance & Cybersecurity

AMAS founded its Technology Committee in 2023, with one of the priorities being the topic of digital finance; in particular tokenisation. In the area of cybersecurity, the 'Swiss Financial Sector Cyber Security Centre' association was founded by key financial-centre players in Switzerland. AMAS's activities here include a number of presentations on an on-chain vault. AMAS initiated this project together with the Multichain Asset Managers Association.

6.5. Other regulatory developments

Limited Qualified Investor Fund (L-QIF)

A new category of fund, the limited qualified investor fund (L-QIF), offers qualified investors an alternative to similar foreign products; in particular Luxembourg's Reserved Alternative Investment Fund (RAIF). The Association - which originally conceived the idea - supports this project. Its implementation represents an important step in reinforcing the Swiss financial sector and enhancing Switzerland's competitiveness as a location for funds and asset management.

By Swiss standards, the L-QIF project was up and running quickly. The Federal Council instructed the Federal Department of Finance (FDF) to draft the necessary revision of the law on 5 September 2018. The idea also met with widespread support in parliament. The motion put forward by Ruedi Noser of the Council of States was passed by large majorities by the Council of States in September 2018 and by the National Council in March 2019. There was also broad support expressed in the consultation that opened on 26 June 2019. However, the Federal Council's vote to adopt the dispatch was delayed by the COVID-19 pandemic, finally taking place on 19 August 2020. The draft was debated by the Council of States as the first chamber in summer 2021, and was approved by a large majority before being adopted by the National Council's Economic Affairs and Taxation Committee (EATC-N) at the start of September 2021. It was debated by the National Council as the second chamber in that year's winter session. Both councils then resolved to agree on the version that was adopted in a final vote on 17 December 2021. The Association actively lobbied for the draft while parliament debated it. The Collective Investment Schemes Ordinance was then revised, subject to a consultation that ran from September to December 2022. AMAS conducted an internal consultation process on the revision.

Following a number of delays, the new fund category was launched on 1 March 2024. The final draft was published at the end of January 2024. The delays were due to generally critical feedback in the consultation on the CISO amendments, which brought about the need for further discussions. It should be noted here that the CISO draft also contained rules with no connection to the L-QIF, which also had to be reviewed.

7. FINANCIAL & INVESTOR EDUCATION INITIATIVES

AMAS continues its successful support of the Lucerne University of Applied Sciences and Arts (HSLU), which offers a CAS continuing education programme in asset management.

For employees of its member institutes, AMAS 2023 successfully continued its knowledge transfer forum. At AMAS Meet & Eat, one company each month presents on innovative topics, with the aim of transferring new knowledge. In 2023, the focus was on topics such as cryptoinvesting, on-chain asset management and decentralised finance.

8. OTHER ACTIVITIES OF THE ASSOCIATION

Swiss Asset Management Study 2023

The Institute of Financial Services Zug IFZ, part of Lucerne University of Applied Sciences and Arts along with the Asset Management Association Switzerland have produced the sixth edition of the Swiss Asset Management Study providing a comprehensive overview on asset management in Switzerland.

Report on the Third Contributor

In 2023, for the second time, AMAS published a report on the third contributor (only available in German).

Events

Asset Management Day 2023 once again proved to be the leading industry event for Swiss asset management. Marlene Amstad, Chair of the Board of Directors of the Swiss Financial Market Supervisory Authority (FINMA), Ulf Lewrick, Chief Economist at the BIS, Martin Schlegel, vice Chairman of the Governing Board of the Swiss National Bank (SNB) and Sergio Ermotti, CEO of UBS, spoke on the developments, risks and opportunities in Swiss asset management and the financial centre, in front of over 300 participants at the Bellevue Palace in Bern.

AMAS is a founding partner of the international 'Building Bridges Summit' in Geneva. It was again heavily involved in the 4th edition. Building Bridges is a high-level summit aimed at creating synergies, developing new initiatives and making finance a key catalyst for change.

The 'Risk Management Day 2023', held in Zurich on 23 May 2023, delved into the analysis of current risk management practices in the financial industry. The 'GIPS Day' - also held in Zurich - on November 20, offered insights into the Global Investment Performance Standards and their significance for the financial world. The 'AMAS Tax Insights Breakfast' on 27 September – once again in Zurich - brought together tax experts and financial professionals to discuss the latest tax insights and their implications for asset management.

Various webinars complemented the programme, including discussions on digital assets, sustainable finance regulation, T+1 settlement and the evolution of risk management in the financial industry.

TÜRKIYE (TURKEY) COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	29.1	26.2	27.9	48.2	67.7
Funds domiciled abroad and promoted by national providers	0.002	0.002	0.003	0.002	
Total net assets	29.1	26.2	27.9	48.2	67.7

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

	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	7,304.2	-799.1	6,462.6	14,431.7	17,683.8
Funds domiciled abroad and promoted by national providers					
Total net sales	7,304.2	-799.1	6,462.6	14,431.7	17,683.8

2. KEY TRENDS IN THE UCITS MARKET

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

	2019	2020	2021	2022	2023
Equity funds	0.6	1.1	1.6	3.0	2.6
Bond funds	4.1	2.6	2.3	2.7	2.0
Multi-asset funds	1.5	1.5	1.4	1.8	1.4
Money market funds	6.0	2.9	2.7	5.0	4.5
Guaranteed/protected funds	0.1	0.1	0.1	0.02	0.001
Absolute Return Innovative Strategies (ARIS) funds	1.6	3.8	6.6	17.6	32.2
Other funds	1.5	2.4	3.3	4.0	5.8
Total	15.4	14.4	18.0	34.2	48.6
of which ➤ ETFs	0.04	0.4	0.5	0.7	2
➤ Funds of funds	0.4	1.0	1.7	1.5	1.3

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	76.5	420.6	654.0	648.6	-218.3
Bond funds	924.2	-902.1	438.4	364.1	-359.3
Multi-asset funds	847.5	134.6	292.8	41.6	-207.9
Money market funds	3,359.9	-2,050.9	648.1	2,819.8	575.3
Guaranteed/protected funds	35.6	-2.5	-94.1	-76.5	-9.4
Absolute Return Innovative Strategies (ARIS) funds	872.5	409.5	2,510.6	9,114.0	15,190.7
Other funds	781.6	899.7	1,558.2	466.7	1,186.4
Total	6,897.7	-1,091.1	6,008.0	13,378.3	16,157.6
of which ➤ ETFs	7.8	354.5	120.8	72.8	678.0
➤ Funds of funds	113.6	589.6	1,016.4	-255.2	-225.3

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	13.0	10.9	8.4	11.3	14.6
Other funds	0.7	0.9	1.4	2.7	4.6
Total	13.7	11.8	9.9	14.0	19.2
of which ➤ ETFs		0.4			
➤ Funds of funds	0.4	1.0	1.7	1.5	
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	356.7	171.0	134.5	508.8	308.7
Other funds	49.9	121.0	320.0	544.7	1,217.5
Total	406.5	292.0	454.6	1,053.5	1,526.2
of which ➤ ETFs		354.5			
➤ Funds of funds	113.6	589.6	1,016.4	-255.2	
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	401	566	795	1,152	1,250
Home-domiciled AIFs	108	136	219	336	468
Foreign funds registered for sales	10	9	9	9	
➤ By national promoters					
➤ By foreign promoters	10	9	9	9	
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

Corporate governance – major developments

Corporate Governance Principles in Turkey were issued by the CMB in June 2003. Therefore, the CMB has defined corporate governance principles that can be used primarily by listed companies and by joint stock companies both in the private and public sectors.

The Turkish Institutional Investment Managers' Association (TKYD) accepted the EFAMA code of conduct for investment and asset management firms, and therefore issued these principles as a guide to its members. Borsa Istanbul (Istanbul Stock Exchange) works on several international projects as part of the EU accession process.

TYKD also published 'Ethical Principles and Codes of Conducts Guide for the Asset Management Sector' in September 2021.

Fund governance

At the end of 2012, the mutual funds industry entered a new era after the new Capital Markets Law (Nr. 6362) and related regulations came into force. Investment companies and asset management companies have a more important role with the new regulations in the capital markets. The Turkey Electronic Fund Trading Platform (TEFAS), which is one of the most important steps for the growth and becoming wide spread of mutual funds, has been implemented. In addition, the new law allowed portfolio management companies to establish mutual funds. The ongoing process of adapting to new rules and notifications has been completed, and the transition process ended in 2015. Portfolio management companies took over the mutual funds as founders.

Mutual funds are established in the form of open-end investment companies in Turkey. They do not have legal entity. They are operated in terms of the rules stated in the prospectus, which includes general terms on the management of the fund, custody of assets, valuation principles and conditions of investing in the fund. Turkey closely watches developments in the European Fund Industry and the compliance of the Turkish Fund Industry with EU legislations.

The investment fund industry currently represents 7.0% of country's GDP. The sector's growth has been strong for the last three years; TRY 305 billion in 2021, TRY 762 billion in 2022 and 1,787 billion in 2023. Higher growth is expected in the coming years, with the support of changing investment behaviour in the country and investors becoming used to TEFAS and comparing mutual funds of the industry. The total investment industry also gained momentum over recent years, reaching 12.0% of GDP in 2023.

TEFAS, which has been in operation since January 2015has had a positive effect on developing and supporting the mutual fund industry, particularly in 2020 and 2021. The CMB's new regulations are mandatory for investment funds traded through the platform. This was an important step to ensure the growth of the sector and for the system to become operational. The Government also put it on the agenda, and is studying implementing TEFAS for private pension funds. An open architecture approach created by TEFAS for delivering mutual funds to investors made a significant contribution. The product variety has increased, and investors can access numerous asset classes and themes, irrespective of the scale of the investors' savings.

The types of investment funds changed in 2016 in to comply with EU standards; Debt Securities, Money Market, Mixed & Variable, Alternative, Equity, Funds of Funds, Precious Metals, Participation, Hedge Funds, ESG Funds and Exchange Traded Funds.

With the new law, capital markets are gaining new investment products and asset classes for alternative types of investment funds. There are new products entering the market, such as interest-free products (Islamic products), venture capital funds and real estate investment funds, providing variety in the market. These funds came into capital markets in 2016 and have continued to grow in 2023. ESG funds, funds created for green economy, hedge funds and equity funds become popular over the last two years as a result of the low interest rate policy of the government. The total number of open-ended funds is 1,812 compared to only 569 in 2020.

The CMB issued the related communiques on establishing private equity funds and real estate funds in January 2014. There are real estate investment trusts that are all closed-ended instruments in the Turkish Capital Markets.

The CMB's new investment funds communique, issued under the new Capital Markets Law, entered into force on 1 July 2014. An investment funds handbook prepared by CMB - in line with this communique - was also published in June 2014. The latest amendments were on 23 December 2020.

According to the communiqué published in late 2006, hedge funds in Turkey are regulated by the CMB.

6. PENSIONS

Private Pensions, Auto Enrolment and Investment Funds

The current pension system in Turkey is the third pillar, a voluntary system that started on 10 October 2003. In 2013, along with the government contribution starting from 1 January 2013, the pension fund industry showed visible growth for the last 10 years. However, in 2018 and 2019, participation came down because of the new autoenrollment system. In 2022 and 2023, the system continued to growth by 71% in 2022 and 78% in 2023. The Turkish government continued to contribute 25% until 21 January 2022. Beginning 22 January 2022, the government support was raised to 30%. The aim of the support is to make the pension system more attractive to pension savers. The purpose of the new regulations is to increase savings by Turkish investors, which will help improve Turkey's economic outlook and reduce its current deficit.

In Turkey, the funds are generally used to invest in traditional standard instruments namely equities, bills and bonds, deposits and - to a degree - the futures markets. For several years, during the development of capital markets by Capital Markets Boards of Turkey (CMB), funds began to invest both internationally and locally. The need for longer-term instruments is surging through this fast-growing industry. Although it is a voluntary system, participation in the system continued to grow rapidly. Following the pandemic, the system picked up and the number of participants grew to 8.6 million at the end of December 2023, compared to 7.8 million at the end of December 2022 and 7.1 million at the end of 2021.

The current Turkish Pension System is fund-based, and pension funds are managed by the asset management companies in Turkey. The system is complementary to the national social security system, on a basis of voluntary participation. The defined contribution principle is aimed at directing individual pension savings to investment with a view to improving welfare level by providing a supplementary income during retirement and to contribute to economic development by creating long term resources for the economy.

The CMB provided opportunity for constructing longer term and alternative capital market instruments such as real estate investment funds and venture capital funds. These are appropriate for longer-term investment opportunities for pension fund portfolios. Infrastructure funds are also important for long-term investments and portfolio diversification.

In 2013, the proportion of pension funds in household's investment portfolio was only 2%, increasing to 5.6% in March 2023. Consequently, Government support has been successful for the last six years. It is obvious that pension system is a particularly important tool for improving savings.

At the end of 2012, the total amount was TRY 20 billion, while in 2023 the system grew to TRY 625.5 billion with 8.7 million participants; Government support to the system reached TRY 77.7 billion.

There are many types of pension funds with different investment strategies, the majority of assets in Turkish funds in the past were government bonds. Now, participants prefer gold, variable and government external debt funds, respectively. Withholding for income tax is applied when a participant leaves the system. Taxation rates differ depending on the participant's opting out period. The participant who stays 10 years in the system and retires from the system at the age of 56, pays only 5% withholding tax. The participant who does not stay in the system for minimum 10 years, however, must pay 15% withholding tax (also on the government support). In addition, if the participant completes 10 years in the system and opts out before reaching 56 years of age, they pay 10% withholding tax. Finally, the participant pays 5% of withholding tax if they qualify for retirement (death or becoming disabled). It is also effective for auto enrolment system.

Turkish Government established another pillar - autoenrollment - to attract more participants to the pension system. The system came in to force in 2017. In August 2016, the Private Pension and Savings Code was reformed, and a new article added, in which employees will automatically be enrolled into a pension plan; currently all employees under 45 years of age. The employer transfers minimum 3% of the salary to the system. The employees can use the right of withdrawal and opt out in two months' time. The new system gradually began to operate during 2017. Both the government support for the voluntary pension system and autoenrollment will add further participants to the pension system. At the end of 2022, 8.3 million participants and TRY 31.8 billion fund amount raised in the autoenrollment system with TRY 1.5 billion in government support. The autoenrollment system also has government support, which was 25% of contribution paid and is now 30% since beginning from 2022 If the participant prefers to use the pension-buying 10-year period annuity contract, 5% of the savings will be paid to the pensioner. Conditions to be entitled to government support are shown in the table below:

Private Pension System	Auto Enrolment System
Amount of Governmental Support Account	**Amount of Governmental Support Account**
minimum three years in the system: 15%	minimum three years in the system: 15%
minimum six years in the system: 35%	minimum six years in the system: 35%
minimum ten years in the system: 60%	minimum ten years in the system: 60%
retirement, death and disability: 100%	retirement, death and disability: 100%

The private pension and autoenrollment participant has the right to change the distribution of the funds in a pension plan six times in a calendar year, which changed from 12 times with legislation published on 6 May 2021.

At the end of May 2019, the CMB added an article to Pension Funds Guide in which underperforming asset management companies will be sanctioned. The aim of this is to improve the fund returns. Over a three-year period, if the fund underperforms in two periods, management will be switched to an asset management company. Outperformers, meanwhile, will be awarded with extra payments.

In October 2019, the Presidency of Republic 2020 annual programme was published. The pension system is important for improving long-term savings, and the 2020 amendments will be practiced for the duration of the pension system:

1) Governmental support will be differentiated according to age. The aim is to attract youth into the pension system.
2) Partial withdrawal opportunities will be provided.
3) A supplementary pension system will be accomplished. The autoenrollment system will be rearranged to enhance the duration of participants in the system and amount of funds raised.

In June 2020, it was announced that supplementary pension system will be activated on 1 January 2022. The system has two options, one is a combined supplementary pension system and will be compulsory. The other is subject to employee preference. In the combined supplementary system, 3% of monthly severance pay of employees (8.33%) will be transferred to supplementary fund account of the employees. In the second model, every employee will have a supplementary fund account. Employers will contribute 4% to the fund as provisions for severance pay and the government will contribute 1%. A 0.5-3.0% haircut will be made from the salaries of employees and transferred to fund account. Employees will have right to opt out of the combined system and transfer to the other.

According to law of 25 May 2021, parents will be able to save in the private pension system (BES) on behalf of their children who have not reached the age of 18.

The law also specifies that, if a decision is made by authorised bodies relating to the savings and commitments in Turkey or abroad within the scope of pension plans existing as of 1 January 2021, associations, foundations and other commercial companies with legal personality making retirement commitments to their members or employees will be able to transfer their amounts partially or completely to the pension system at the end of 31 December 2023.

Amounts transferred to the private pension system are exempt from income tax. Members who transfer amounts will not be able to leave the system (disability and death excluded) within three years of the date of transfer.

In subparagraph 2 of Article 2 of the Presidential Decree dated 22 December 2020 and numbered 3321, the withholding rate applied to income and gains from mutual funds acquired between the effective date of the decision and 31 March 2021 (except for variable, mixed, Eurobond, foreign debt, foreign, hedge funds and mutual funds with the phrase foreign currency in their title) was reduced from 10% to 0%. The Presidential Decree No. 8002 published in the Official Gazette on 28 December 2023 extended the validity period of this practice was to 30 April 2024.

The 2024-2026 medium term programme, published in the Official Gazette No. 32301 on 6 September 2023, includes measures to develop capital markets. It is aimed at supporting financial stability in line with the market economy, by increasing domestic savings, ensuring efficiency in resource allocation, facilitating access to financing through developing capital markets, expanding financial literacy and simplifying macro prudential measures. The measures relevant to our sector are listed below:

Financial literacy activities will be further expanded.

The diversity of financial products and services in capital markets will be improved and the investor base will be expanded by protecting the rights of small investors.

New products and services in the field of green finance will be developed by raising awareness on ESG criteria.

Private pension system (PPS) fund types will be redesigned to generate more added value for participants' savings. Arrangements will be made to increase state contribution returns and simplify deductions, through improving the attractiveness of the PPS, and the amount of funds in the system and the number of participants will be increased. A complementary pension system will be established to transform the autoenrollment system into a second-tier pension system with the contribution of employers.

In 2023, mutual investment funds showed essential growth with increasing investor interest and fund types. In 2023 mutual investment funds grew by135% compared to 2022, reaching TRY 1,787 billion.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Ministry of Treasury and Finance imposed equal withholding taxes on foreigners and Turkish nationals for bonds and investment funds. The current taxation system allows both foreign and domestic investors to pay zero withholding tax on shares.

Securities and other capital market instruments, capital companies (investment funds and securities and other capital market instruments exclusively in partnership with the increase in value with gains and the associated benefits rights to use the non-resident operating in mutual funds and investment trusts established in accordance with the Capital Market Law) are subject to 0% withholding tax.

For all the others:

- Withholding tax of 10% was removed for equity-based investment funds (min 80% equity holding funds)
- Income from holding funds that hold minimum 51% equity of the fund portfolio over a year are exempted from 10% withholding tax.
- Those investing in all other type funds are subject to 10% withholding tax.

Major developments continued during 2022. On 15 April 2022, a Presidential Decree was published, which reduced the 10% portfolio income tax to 0% - also applying to venture capital funds. However, funds with foreign currency assets, gold and other precious materials and capital markets instruments based on these were excluded from the exception.

8. OTHER ACTIVITIES OF THE ASSOCIATION

Other Activities of TKYD

When we review development of the portfolio management and fund industry since 2000, we see significant improvement. There have been positive impacts from the approval of the private pension legislation and the integration of our country's financial institutions to the system, as well as their increased reputation on the international arena as a result of the restructuring based on the lessons learned in the past.

The new legislative regulations in the investment fund industry introduced by the CMB, as well as the new products, help support and enhance the industry. The tax equality among the investment tools and specific legislation on the asset management companies will both pave the way for the growth of collective investments industry in Turkey and meet international standards. The number of asset management companies owned independently of banks has already increased over the last seven years, bringing the total number to 65 in 2023.

The CMB is working closely with TKYD to resolve many issues related to investment funds, as well as discussing certain proposals and offering solutions for some critical issues facing the industry in Turkey.

The activities of TKYD in 2023 can be summarised as;
Mehmet Ali Ersarı was a guest on Bloomberg HT Bloomberg HT's 'Finance Center' programme on 17 March 2023.

- The XXIII[th] Ordinary General Assembly Meeting of the TKYD was held on 22 March 2023. Yağız Oral, General Manager of TEB Asset Management BNP Paribas Joint Venture, was elected President of the TKYD for a two-year term. Halim Çun, General Manager of Inveo Asset Management and Ms Nilgün **Şimşek** Ata, General Manager of HSBC Asset Management were elected as vice-Chairman and Secretary General, respectively.
- In the April 2023 issue of TUYİD Investor Relations Association's monthly e-newsletter, TKYD vice-Chairman Halim Çun wrote a column entitled 'Investors in Search of Healthy Investments Meet at Mutual Funds'.

The TKYD Board of Directors visited the Capital Markets Board (CMB) on 30 May 2023. TKYD Management met with İbrahim Ömer Gönül, Chairman of the Capital Markets Board, Ali İhsan Güngör, vice Chairman of the Board and Ms Funda Uyar Geneci, had of the Department of Institutional Investors.

The TKYD Board of Directors visited Borsa Istanbul on 14 June 2023J for a positive exchange of views on capital markets with the general manager and board member Korkmaz Ergun, Chairman of the Audit and Supervisory Board Arif Tuncay Ersöz and Deputy General Manager Murat Bulut.

TKYD President and EFAMA Board Member Yağız Oral attended the 78th EFAMA General Assembly on 16 June 2023. Sandro Pierri, CEO of BNP Asset Management, was elected as EFAMA President for the period 2023-2025.

The 4[th] Golden Egg University Student Fund Basket Competition began on 11 October 2023. The competition is organised in cooperation with Takasbank, the Capital Markets Association of Turkey and the Institutional Investor Managers' Association of Turkey. The aim is to encourage university students to engage in long-term savings and investments, to provide them with information on mutual funds and to increase the widespread use of TEFAS. Uniquely, the competition required a minimum 5% investment in 'Sustainability' funds, in order to raise awareness on sustainability.

The CFA Society Istanbul visited TKYD on 1 November. President Alper Alkan, CFA and Executive Director İlke Takımoğlu Homriş, CFA and TKYD to discuss potential collaboration. TKYD President Yağız Oral, supervisory board member Cenk Kaan Dürüst and TKYD general coordinator Cüneyt Demirkaya also discussed the issue of increasing financial literacy. It was agreed that TKYD and the CFA Society will collaborate on conducting a survey in Turkey to assess the investment habits of Generation Z; this has already been conducted by CFA.

TKYD participated as a Supporting Partner in Bonds, Loans & ESG Capital Markets, CEE, CIS & Turkey, a conference held on 14-15 November 2023. Participants used the gathering of global capital markets leaders to reconnect with existing clients, build strong business relationships with potential clients and listen to the market's financial leaders share how they are managing the current economic environment/expectations for the year ahead. As a Supporting Partner, TKYD members were entitled to a 15% discount. TKYD distributed our Institutional Investor magazine (TKYD's Quarterly Magazine) at the conference.

The 3rd Asset Management Summit, organized by TKYD, was held on 15 December 2023, with the participation of all stakeholders of the sector, notably regulatory authorities. Following the summit's opening addresses, Daniel Morris, Chief Strategist at BNP Paribas Asset Management, presented on the developments and expectations in global markets. Following the presentation, four panels discussed: “Investment Themes of the Future”, “Alternative Investment Funds: Venture Capital Model”, “Global Economic Outlook, The Future of Growth in Turkey and Its Components” and “Business Partners of Asset Management Sector” respectively.

The TKYD has 18 institutional members (asset management companies, insurance companies and brokerages) and 18 individual members.

The Turkish Institutional Investment Managers’ Association, with an ambitious vision of enhancing the base for institutional investors in Turkey, aims at increasing the number of investors to 10 million.

The TKYD has published a quarterly magazine entitled ‘Institutional Investor’ since April 2008. It is distributed among TKYD members, institutional investors, companies traded on the stock exchange, universities and regulatory body officials. It covers all the latest developments in the Turkish investment fund industry as well as various analyses, reports, the introduction of new funds in the market, interviews, trends in the sector and developments in the global fund industry together with the relevant industry statistics. Last year, the Quarterly Magazine celebrated its 15th anniversary of publishing.

The TKYD has determined six priority areas for 2024:

1. Investor protection.
2. Improvement of sector standards.
3. Capital markets development.
4. Research activities and statistical data.
5. Long-term savings growth.
6. Taxation.

The TKYD signed a partnership agreement with Borsa Istanbul in 2015 for calculating KYD benchmark indices beginning from 1 July. The name of the indices was updated to ‘BIST-KYD Indices’. The TKYD and BIST created the BIST-KYD Indices Committee, which will meet periodically to define new indices according to the sector’s needs.

UNITED KINGDOM COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in United Kingdom (EUR billion)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	1,765.6	1,784.3	2,135.5	1,758.4	1,909.4
Funds domiciled abroad and promoted by national providers					
Total net assets	1,765.6	1,784.3	2,135.5	1,758.4	1,909.4

Table 2: Net Sales of Investment Funds in United Kingdom (EUR million)					
	2019	2020	2021	2022	2023
Home-domiciled UCITS & AIFs	-19,837.8	16,371.8	37,577.1	-44,002.5	-26,098.2
Funds domiciled abroad and promoted by national providers					
Total net sales	-19,837.8	16,371.8	37,577.1	-44,002.5	-26,098.2

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	790.2	781.4	965.3	787.2	856.7
Bond funds	215.6	217.1	239.0	195.3	211.2
Multi-asset funds	180.8	196.4	221.9	195.7	202.7
Money market funds	25.4	23.7	26.2	22.9	25.2
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	51.5	39.9	35.0	25.4	21.8
Other funds	25.4	27.4	51.3	46.4	54.3
Total	1,288.9	1,286.0	1,538.7	1,272.8	1,371.9
of which ➤ ETFs					
➤ Funds of funds	69.6	71.7	81.7	70.7	82.9

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-16,468.6	706.6	19,234.2	-35,219.4	-29,915.8
Bond funds	295.7	776.1	11,384.7	6,575.7	-61.8
Multi-asset funds	8,068.9	15,584.7	10,929.0	-1,005.7	-13,558.5
Money market funds	2,669.2	-312.8	810.2	-2,163.7	857.1
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-16,524.3	-9,803.5	-7,962.5	-6,630.3	-5,894.3
Other funds	2,573.0	4,476.5	8,959.0	4,647.7	4,305.9
Total	-19,386.2	11,427.5	43,354.6	-33,795.7	-44,267.2
of which ➤ ETFs					
➤ Funds of funds	2,393.9	2,278.7	1,632.0	903.5	10.9

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2019	2020	2021	2022	2023
Equity funds	58.0	85.8	96.3	76.2	90.1
Bond funds	17.7	18.7	22.2	17.7	20.4
Multi-asset funds	103.8	103.5	118.0	99.2	125.4
Money market funds	0.1	0.1	0.1	0.1	0.2
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	14.8	13.3	14.5	7.5	6.1
Real estate funds	25.7	20.5	18.2	12.1	10.2
Other funds	256.7	256.4	327.5	272.7	285.1
Total	476.8	498.3	596.8	485.6	537.5
of which ➤ ETFs					
➤ Funds of funds	132.2	131.1	154.8	133.8	172.4
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2019	2020	2021	2022	2023
Equity funds	-2,417.4	5,211.1	-6,540.2	-4,681.5	3,252.7
Bond funds	-1,463.8	-8.0	2,350.7	552.5	1,186.7
Multi-asset funds	3,375.9	287.8	-709.4	-1,942.4	15,728.5
Money market funds	-0.7	17.8	9.0	15.8	14.2
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	637.8	-1,132.9	-827.7	-4,803.6	-1,847.0
Real estate funds	-5,005.6	-2,478.0	-5,186.7	-3,611.8	-1,717.0
Other funds	4,422.2	3,046.4	5,126.8	4,264.2	1,550.9
Total	-451.7	4,944.3	-5,777.5	-10,206.8	18,169.0
of which ➤ ETFs					
➤ Funds of funds	4,280.1	1,382.9	-1,120.9	-1,062.1	22,266.6
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2019	2020	2021	2022	2023
Home-domiciled UCITS	2,301	2,350	2,320	2,271	2,289
Home-domiciled AIFs	1,014	1,029	1,067	1,060	1,085
Foreign funds registered for sales	1,463	1,608	1,712	1,667	1,747
➤ By national promoters					
➤ By foreign promoters					
Fund launches	356	220	241	162	137
Fund liquidations	152	123	146	121	174
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2023

The 2023 data on UK investor net retail sales show another challenging year, with investors withdrawing GBP 24.3 billion from funds, marginally lower than 2022's outflow of GBP 26.9 billion. Higher cash savings rates are likely to have been a factor in high retail investor net outflows during 2023; Bank of England data show inflows totalling GBP 47 billion to cash ISAs over the year. This is higher than those over the previous eight years combined, and is the highest inflow since 2001 (when inflows were GBP 28 billion).

Money market funds and fixed income funds saw positive net sales

Sales to money market funds were GBP 2.2 billion, making this the highest selling asset class of 2023. Retail investors were looking for short-term liquidity and an alternative to cash. Discretionary and advisory portfolio managers who direct a significant proportion of allocation decisions will have used money market funds to give them greater flexibility in tactical reallocation as market conditions shifted. Flows to fixed income funds in 2023 were GBP 716 million, starting strongly in H1 but turning negative in H2. There was a clear investor preference for the lowest-risk bonds, particularly as yields on these bonds rose. The UK Gilts and Government Bond sectors were the second- and third-highest selling sectors over the year, attracting net new investment of GBP 4.5 billion.

Equity outflows were exacerbated by a record outflow from UK

Despite a considerably improved return environment for equities compared with 2022, 2023 remained a challenging year for flows into equity funds. Net retail sales to equity funds worsened, falling from -GBP 18.9 billion in 2022 to

-GBP 22.3 billion in 2023, driven by heavy outflows, with GBP 30.9 billion leaving active equity funds and GBP 13.6 billion from UK equity funds. Equity trackers continued to be consistent, recording just one month of outflow in 2023 and attracting net inflows of GBP 8.6 billion over the year. This was due to investors opting for lower fees and advisers continuing to use trackers to bring down the total cost of investing for their clients.

Flows to Global and India fared better in 2023
Outflows were recorded across most equity regions in 2023. UK equity fund outflows accelerated from GBP 12.0 billion to GBP 13.6 billion. There were bright spots for equity funds, however. After the worst year in IA data for sales to global equity funds in 2022, the demand for globally diversified equity exposures saw flows return in 2023, with inflows of GBP 1.2 billion. Funds in the India / Indian subcontinent sector were the main beneficiaries of a more volatile environment for Chinese equities. Investors pivoted to India in 2023, with the sector attracting strong inflows of GBP 258 million, significant for a smaller sector by FUM.

Investor sentiment towards sustainable funds weakened
2023 also saw a waning in the relative resilience of flows to responsible investment (RI) funds. Sales were flat in H1 before turning negative towards the end of the year. The GBP 3 billion outflow marked a stark shift in sentiment from 2021, when flows to responsible investment funds peaked at GBP 15.9 billion. With equity funds falling out of favour in 2023, the heavy representation of equity funds within the RI funds universe likely caused a further dampening of sales over the year.

Our latest UK investor data for 2024 suggest that it will continue to be a challenging one for the UK funds market. Although investor sentiment over market performance may be brightening, high cash savings rates remain a powerful pull for savings. UK investors continued to pull assets out of funds in the first two months of 2024, withdrawing GBP 3.8 billion. The first two meetings of the FPC this year have seen rates remain steady at 5.25%. The when, how fast and how far central banks cut interest rates will play a crucial role in the pattern of sales over the coming year.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

The recent reforms to the EU AIFM Directive do not apply to the UK AIFMD and UCITS regimes, which - following the UK's withdrawal from the EU in 2020 - were onshored into UK legislation. In February 2023, the FCA (Financial Conduct Authority) issued a discussion paper on reforms that could be considered to UK asset management, including to the UK AIFMD and UCITS frameworks. A speech given in October 2023[1] by FCA Chair Ashley Alder indicated that the FCA plans to retain the core of the AIFMD but introduce greater proportionality for smaller AIFMs. Mr Alder also indicated that the FCA would consider simplifying the rules for UK UCITS and rebranding Non-UCITS Retail Schemes (NURS), although we understand the FCA is unlikely to consider moving away from numerical spread limits for UCITS and NURS. HM Treasury will be issuing a consultation in Spring 2024 on reforms to the AIFMD, in which we expect most rule-making powers to be transferred to the FCA under HM Treasury's 'Smarter Regulation Framework'.

Bim Afolami MP, Economic Secretary to the Treasury, announced in a written statement on 30 January that the UK Government had determined that EEA (European Economic Area) states - including EU Member States - were equivalent to UK standards on an outcomes basis in respect of UCITS. This confirmed that no additional requirements will be imposed on EEA UCITS recognised under the Overseas Funds Regime (OFR), although HM Treasury will consult during 2024 on whether to apply the UK's Sustainable Disclosure Requirements (SDR) framework to overseas funds. The OFR is expected to open to applications for recognition from EEA UCITS in summer 2024, and the FCA will be issuing landing slots around this time to existing EEA UCITS in the Temporary Marketing Permissions Regime (TMPR). The TMPR has been extended until the end of 2026, to allow sufficient time for existing EEA UCITS to transition to the OFR.

1 https://www.fca.org.uk/news/speeches/updating-and-improving-uk-regime-asset-management-our-priorities

Disclosure

- Following a consultation at the end of 2022, the UK Government finalised its approach for a new retail disclosure regime. This saw the publication of a draft instrument that will create an overarching legislative framework to replace the PRIIPs and UCITS KII Regulations as well as the relevant cost disclosure aspects of MiFID II. Within the new framework, the FCA will be empowered to set the detailed firm-facing requirements. It is expected to consult on draft rules in the first half of 2024.

- The new regime will apply to all funds - and other products currently defined as PRIIPs - marketed to UK retail investors, including overseas products marketed under current temporary arrangements or the future overseas funds regime. The current UK exemption from PRIIPs will be replicated in the new regime, giving firms a choice of continuing to provide a UCITS KIID until the end of 2026 or opting into the new regime early.

Money Market Funds Reforms

- The Commission's report on its review of the EU Money Market Fund (MMF) framework opted not to present a reform proposal for the MMF Regulation until the next Commission. However, the FCA, in consultation with the Bank of England, opted to proceed with a consultation on reforms to the UK MMF Regime at the end of 2023. This was accompanied by the publication of a draft Statutory Instrument by HM Treasury, revoking the onshored EU MMF Regulation, and passing most rule-making powers to the FCA as part of its 'Smarter Regulatory Framework' initiative.

- The FCA has proposed retaining most of the provisions of the existing MMF Regulation, including the three MMF types; Public Debt Constant NAV (CNAV), Low Volatility NAV (LVNAV) and Variable NAV (VNAV) MMFs. The key proposed changes are delinking for LVNAV MMFs - removing the link between minimum liquidity requirements and the imposition of liquidity management tools as well as significantly increasing the minimum liquidity requirements for all MMFs. While the former is universally welcomed, the latter represents a radical change for MMFs, particularly for VNAV MMFs, which will see their weekly liquid asset requirements increase from 15% to 50%. The IA, along with other trade bodies (including EFAMA) has pushed back strongly on the proposed increase in minimum liquidity requirements. It notes the impact on yields, commercial attractiveness of MMFs and adverse impacts on short-term funding markets.

- We understand that - following the FCA consultation - the Commission has renewed its interest in the MMF Regulation file. The IA will engage with UK and EU authorities on their respective MMF reviews, seeking to ensure proportionate regimes for MMFs that are aligned and continue to ensure the viability of MMFs to meet the cash management of investors. The IA has also explored a potential use case for tokenising MMFs for collateral management. It has published a paper entitled 'Money Market Funds and Tokenisation: Collateral Opportunities' (March 2024) - jointly produced with LiCuido - on this use case, which will be presented to HM Treasury's Asset Management Task Force.

6.2. MiFID II

The UK Government intends to revoke the cost-disclosure aspects of MiFID II as part of the introduction of a new retail disclosure regime (see previous section) to enable the independent regulator, the FCA, to reform cost disclosure in a holistic manner.

Notwithstanding areas of regulatory divergence, the European MiFID Template (EMT) continues to play a vital role for transmitting target market and cost information to distributors in the UK. During the year, a UK section was added to the EMT to simplify transmission of information indicating whether the product offers fair value.

Despite the transposition of MiFID II into UK law, 2023 has seen the UK Government and regulators consider changes to aspects of the regulation. High priorities for the FCA have included the development of a framework for a consolidated tape for bonds, the structure of which is expected to be implemented by the end of 2024 with a bond tape hopefully in place by the end of 2025. Further consultations on the development of an equities and ETF (Exchange-Traded Fund) tape are expected down the line. The IA is supportive of the development of these tapes and engages regularly with the FCA to support this process. The FCA is also in the process of reviewing the transparency regime for bonds and derivatives.

In addition, following on from the Investment Research Review in 2023, regulators have been engaging with industry on potential changes to investment research regime including - most significantly - amending MiFID II legislation to allow for payment optionality, including potential bundling of research charges. This has been a high-priority area for the IA and its members, and we expect further consultation on this topic from the FCA.

6.3. CSDR

The UK has not imposed CSDR cash penalties so there has been no impact within this jurisdiction.

For our member firms, the majority of cash penalties are passed on to the end client, who then may look to agree one of two different models with the asset manager. One is a net model, where cash penalties are reviewed on a periodic basis and only reimbursed if the account is net debit. The other is a gross model, where each debit is investigated and reimbursed or claimed back. Increasingly, our members are looking at a net model, given the operational cost of a gross model compared to the size of the debits.

We understand that some custodians and prime brokers do not pass on cash penalties, though these remain in the minority. Our funds are primarily T+3, with a large minority at T+4 and a smaller minority at T+2 or otherwise. The IA has recommended to industry that North American-focused funds move to T+2 and to also explore this for all other funds, with a second recommendation that funds move to T+3 at a minimum. A minority of funds are transitioning, though we understand that more fund managers will explore a shortening of the fund settlement cycle after the May 2024 go-live of US T+1.

6.4. EMIR

The IA has been closely following the development of the EMIR (European Market Infrastructure Regulations) 3.0 proposals, with a particular focus on the proposed (and contentious) Active Account Requirement (AAR). This will require EU counterparties trading amounts above a defined threshold to maintain an active account at an EU clearing house and clear a representative number of trades through it.
The firms we engaged with on this topic are ready and will be in place to submit EMIR refit transaction reporting in April 2024, though there may be teething issues on go-live.

A number of delegating member firms are somewhat concerned about how ready their delegated brokers are and in how little they have communicated on the topic.

6.5. ELTIF

The UK has launched its own fund regime for private market investments, the Long Term Assets Fund (LTAF), which is gaining traction. Although EU-domiciled ELTIFs will be accessible to professional and sophisticated investors through the National Private Placement Regime (NPPR), uptake in the UK market is not expected to be significant, even after the revisions to the ELTIF Regulation.

6.6 Sustainable Finance

FCA rules on climate-related disclosures by asset managers, in line with TCFD (Taskforce on Climate related Financial Disclosure)

At the end of 2021, the FCA published its final rules on climate-related financial disclosure for asset managers, life-insurers and FCA-regulated pension providers (PS21/24). This will require mandatory disclosures consistent with the TCFD's recommendations on an annual basis. Disclosures are required at:

- Entity level: an entity-level TCFD report setting out how they take climate-related risks and opportunities into account in managing or administering investments on behalf of clients and consumers.
- Product level: a baseline set of consistent, comparable disclosures in respect of their products and portfolios, including a core set of metrics.

The largest asset managers (AUM > GBP 50bn) had to make their first public disclosures by 30 June 2023 for the period beginning 1 January 2022. Smaller firms (> GBP 5 billion AUM exemption threshold but < GBP 50bn AUM) are required to make disclosures from June 2024.

In March 2024, the Investment Association published - jointly with PwC - a review on the first round of asset management disclosures. At a high level, some of the key findings cover differences in reports due to variations in the use of qualitative and quantitative reporting, variations around transition plan disclosure, a need for enhanced consumer usability and limitations to reporting due to data gaps.

UK Sustainable Disclosure Requirements (SDR) regime

On 28 November 2023, the FCA published its final rules on Sustainability Disclosure Requirements (SDR) and investment labels. The rules include requirements relating to:

- **An anti-greenwashing rule (for all FCA authorised firms):** The rule will apply from 31 May 2024. Alongside the final rules, the FCA published a consultation on 'Guidance on the Anti-Greenwashing rule'. This is designed to help firms better understand the FCA's expectations under the anti-greenwashing rule and other existing associated requirements.
- **Four labels**: There will be four voluntary fund labels – 'Sustainability Focus', 'Sustainability Improvers', 'Sustainability Impact', along with a fourth label titled 'Sustainability Mixed Goals'. A % threshold applies to products that use any of the four labels, where at least 70% of the product's assets must be invested in accordance with the sustainability objective. Third-party verification will not be mandatory, but there are requirements for firms to obtain independent assessment of the standard for sustainability, which can be either third party or internal.
- **Naming and marketing rules.** Products that are marketed to retail clients, but which do not use a sustainability label, are subject to new restrictions on the use of sustainability-related terms in product naming and in marketing materials where they use sustainability-related terms in naming and marketing. The terms 'sustainable', 'sustainability' and 'impact' cannot be used in fund names that don't use a label.
- **Disclosures at product and entity level, as well as separate consumer facing disclosures.** The product-level disclosure rules require both ongoing disclosure as well as pre-contractual disclosures. The consumer-facing disclosure must be a separate, standalone document.
- **Requirements for distributors.** Distributors must communicate the labels and provide access to consumer-facing disclosures to retail investors. They will also be obliged to include a notice on overseas products to clarify that they are not subject to SDR.

Asset managers are currently working to implement the FCA's rules for a range of implementation dates. The anti-greenwashing rule will be the first to come into effect, on 31 May 2024. Firms will be able to use the labels from July 2024, and the naming and marketing rules will come into effect in December 2024.

The new rules include a revised mapping to the EU SFDR (Sustainable Finance Disclosure Regulation) requirements, to help firms to leverage the disclosures that they already make under SFDR in their SDR disclosures. In terms of scope, the use of the labels and naming and marketing rules apply to UK domiciled funds only and there is currently no clarity on the approach to overseas funds. We expect a consultation from His Majesty's Treasury in due course in terms of if and how SDR may be applied to overseas funds.

Environmental, Social, and Governance (ESG) ratings and data

In the absence of the FCA having regulatory remit over ESG data and ratings providers, the UK ESG Data and Ratings Providers Code of Conduct Working Group launched the finalised Code in December 2024.

As background, the FCA appointed the International Capital Markets Association (ICMA) and the International Regulatory Strategy Group (IRSG) in 2022 to convene an industry group to develop a globally consistent voluntary code for those providing the third-party data and ratings. In line with IOSCO's recommendations, the Code focuses on promoting transparency, good governance, management of conflicts of interest and on strengthening systems and controls in the sector. The voluntary code is now owned and maintained by ICMA.

The UK Government has confirmed that it will be regulating ESG ratings, but no legislative timeline has been set as yet.

Transition plans and green taxonomy
Two industry-led groups have published guidance and recommendations as set out by the UK's Greening Finance Roadmap (2021). The Green Technical Advisory Group (GTAG), which was established in 2021 to provide independent advice on market, regulatory and scientific considerations around developing and implementing a UK Green Taxonomy, published its final recommendations in 2023. The Transition Plan Taskforce (TPT) was established in 2022 to establish best practice and develop guidance for company-level transition plans, publishing its final Disclosure Framework in October 2023.

Both initiatives will now be subject to UK Government consultation to determine the extent of their implementation in law. This consultation had been expected in 2023; it is overdue, causing uncertainty over the Government's commitment to both projects. Nevertheless, the FCA has already committed to drawing on the TPT Disclosure Framework as it develops its own disclosure expectations, and has encouraged firms to begin using the framework on a voluntary basis.

In 2023, the UK Government also published a framework for endorsing International Financial Reporting Standards (IFRS) for sustainability in the UK. The endorsed standards will be known as UK Sustainability Disclosure Standards (or UK SDS). More information is provided on the UK SDS in section 6.7.

6.7. Stewardship

Listing Rule reforms - CP23/10 and CP23/31
In December 2023, the FCA published a consultation paper, CP23/31, which proposed far-reaching reforms to the UK Listing Regime. The aim of these reforms is to improve the competitiveness of the UK listings environment, which has seen a decline. The FCA proposed the amalgamation of the current Standard and Premium segments into a new, single segment for equity shares in commercial companies. The rules have been simplified and some shareholder protections have been removed, including votes on significant transactions and related party transactions, in favour of disclosure-based requirements. The final rules were expected to be published mid-2024.

UK SDS and Updates on UK TAC (Technical Advisory Committee) on IFRS S1 and S2 adoption: The Government has announced a framework for creating UK Sustainability Disclosure Standards (UK SDS) by assessing and endorsing the global corporate reporting baseline of IFRS Sustainability Disclosure Standards. The UK Technical Advisory Committee (TAC) on the International Sustainability Standards Board (ISSB) was established in 2023 to advise the UK Government on implementing the ISSB standards, which aim to harmonise and improve sustainability reporting globally. The ISSB published its first two standards in 2023, on (S1) general requirements for disclosure of sustainability-related financial information and (S2) climate-related disclosures. The UK Government has committed to deciding whether to endorse IFRS S1 and S2 for use in the UK and will make recommendations to the Secretary of State by July 2024. The Department for Business and Trade (DBT) is responsible for making the final decision, based on recommendations from two advisory committees, one of which is the TAC.

Stewardship Review in 2024: The FRC (Financial Reporting Council) announced, on 7 November 2023, a fundamental review of the UK Stewardship Code to ensure that it supports the UK's growth and competitiveness. As part of the review, the FRC will seek views on whether the Code is being used by asset managers, asset owners and other signatories. The review will focus on, the extent to which the Code:

- supports long-term value creation through appropriate investor-issuer engagement that drives issuers' prospects and performance
- creates reporting burdens on issuers as well as on Code signatories
- has led to any unintended consequences, such as short-termism in targets and outlook for issuers.

A formal consultation is expected following the 2024 AGM season, with the revised Code being published in early 2025.

FRC Corporate Governance Code: In 2023, the FRC consulted on changes to the UK Corporate Governance Code, the proposed revisions related to governance reporting, board culture, diversity and inclusion, board performance review, audit, risk and internal control and remuneration. Following stakeholder feedback, the FRC published a final UK Corporate Governance Code in January 2024, with the main changes limited to strengthening provisions on internal controls. The new Code will apply from 1 January 2025, except for provisions on internal controls, which will take effect from 1 January 2026.

Vote Reporting Group: The FCA has launched a working group to develop a comprehensive and standardised vote disclosure regime. This would be designed to deliver: (i) more timely and complete vote reporting; (ii) disclosure at fund and mandate level and (iii) explanations/rationales for significant votes cast. Improving vote reporting will enable asset owners to better assess their managers while reducing the level of ad hoc vote reporting to clients. The consultation opened on 21 June 2023 and closed on 21 September. In response to the 2021 report of the Taskforce on Pension Scheme Voting Implementation (TPSVI), the group also proposed a Vote Reporting Template designed to deliver more timely and complete vote reporting, disclosure at fund and mandate level and explanations/rationales for all votes cast. The group is expected to finalise the vote reporting template in 2024.

Share Capital Management

In response to the Secondary Capital Raising Review Report of July 2022, the Pre-emption Group (PEG) updated its principles in November 2022 in order to implement the recommendations from the Report.

The main changes were as follows:

- Non-pre-emptive limits increased: The PEG's guidance previously imposed a limit of 5% of existing share capital for general disapplication of pre-emption rights, with an additional 5% permitted to finance an acquisition or specified capital investment. In 2020, during the Covid-19 pandemic, the PEG temporarily increased each of these limits to 10%. The new guidance reinstates these increases on a permanent basis.
- Enabling retail participation: 'Follow-on' offers can be made to existing retail shareholders who do not participate in the original placing, up to a limit of GBP30,000 per beneficial owner, and with such shares not exceeding 20% of those issued in the placing. The price should be equal to, or less than, that of the placing shares.
- Companies requiring additional capital: 'Capital hungry' companies can exceed the usual limits as long as the reason for doing so is clearly disclosed to investors when a general authority is requested. The company will also have to disclose the fact that it will use this approach in their IPO (Initial Public Offerings) prospectus.
- Required procedures: Companies making non-pre-emptive issues should consult major shareholders in advance (to the extent possible and permitted) and consider 'soft' pre-emption and how to involve retail and other excluded investors. In addition, they should explain why they are seeking additional funds and what they will do with them, as well as making and publishing a post-transaction report on their activities.
- Following the changes to the PEG's principles, the Investment Association also updated its Share Capital Management Guidelines. These now also allow for an annual disapplication of investor pre-emption rights of up to 20% of the issued share capital and an additional 4% for a follow-on offer. They also give 'capital hungry' companies flexibility in terms of the size and frequency of non-pre-emptive authorities.

Non-Financial Reporting

From 24 May to 16 August 2023, the Department for Business and Trade (DBT) - working with the Financial Reporting Council - conducted a review of the non-financial reporting requirements with which UK companies need to comply to produce their annual report. The DBT's review built upon the 'smarter regulation to grow the economy' policy paper, which set out how the Government would seek to improve regulation across the board in order to reduce burdens and drive economic growth.

Through the non-financial reporting review, the Government heard views on the opportunities that exist to refresh and rationalise current reporting requirements in order that the UK's non-financial reporting framework remains fit for purpose and delivers decision-useful information to the market. The DBT recognised that non-financial reporting provides valuable information to investors through narrative 'story telling' that goes beyond financial information, including how a wide range of factors may impact the company's performance, business strategy and growth. However, the Government stated that existing requirements can be simplified in order to: (i) streamline and focus the corporate reporting regime, (ii) ensure that the annual report contains more decision-useful information and (iii) make the UK a more competitive place to do business, by placing growth and investment at the heart of reporting requirements. The review also considered whether current company size thresholds (micro, small, medium and large), which determine certain non-financial reporting requirements - as well as the preparation and filing of accounts with Companies House - remained appropriate.

The Government are reviewing responses and conducting further research on the topic, and we expect to receive updates in the coming months.

6.8. Benchmarks

The UK Benchmarks Regulation (BMR) came into force on 31 December 2020. The UK has done little to amend the UK on-shored BMR in 2023, other than to extend the transitional period for third-country benchmarks to 31 December 2030.

Following the FCA consultation on whether to require the continued publication of the 1-, 3- and 6-month synthetic USD LIBOR setting, after 30 June 2023 (when the USD LIBOR panel is due to terminate), the FCA announced the following:

- The LIBOR administrator (ICE Benchmark Administrator Limited, IBA) will be required to continue publishing the 1-, 3- and 6-month USD LIBOR settings for a short time after 30 June. On the instruction of the FCA the IBA is required to calculate the synthetic USD rates using the Secured Overnight Financing Rate (SOFR) as per the CME Group plus the respective ISDA (International Swaps and Derivatives Association) fixed spread adjustment.
- Permission to use the 1-, 3- and 6-month synthetic USD LIBOR setting in all legacy contracts, except derivatives.
- From 1 July 2023, when the USD LIBOR panel ended, all new use of synthetic USD LIBOR is prohibited under the UK Benchmarks Regulation. This overrides the exemptions to the prohibition on new uses that the FCA previously imposed. The synthetic settings are intended for use in legacy contracts only, to help ensure an orderly wind down of LIBOR.
- The FCA reiterates its intention to maintain the timeline it has already outlined for the cessation of the 1-, 3- and 6-month synthetic USD LIBOR setting from 30 September 2024. They do add the caveat that this decision will be reviewed in line with the Benchmark Regulation requirements. At this stage, however, a change in direction is only likely should any unforeseen and material events occur.

In terms of synthetic sterling LIBOR rates, the 1- and 6-month synthetic GBP LIBOR settings have now terminated and were published for the last time on 31 March 2023. The 3-month synthetic GBP LIBOR setting is expected to cease at the end of March 2024.

6.9. Anti-Money Laundering Directive

- Companies House implemented new systems and controls to implement its increased obligations on beneficial owner registers. The Register of Overseas Entities became compulsory, meaning that overseas entities owning land in the UK or holding leases longer than a certain length - if purchased after 1 January 1999 in England and Wales - were required to register by 31 January 2023.
- HM Treasury consultation on the AML supervisory regime: primarily, whether the 23 different bodies responsible for the supervision of money laundering in the UK should be amalgamated, and if so, to what degree. While the consultation has closed, as yet there has been no policy statement on this issue.
- Early in 2024, the UK Money Laundering Regulations were amended; rather than requiring to be regularly updated to reflect changes in the list of high-risk third countries, they now merely refer to the FATF (Financial Action Task Force) lists of High-Risk Jurisdictions subject to a Call for Action and Jurisdictions under Increased Monitoring.

- Amendments to the Money Laundering Regulations have also been made to introduce a new definition and treatment of domestic PEPs.

6.10. Digital Finance & Cybersecurity

In November 2023, the Asset Management Taskforce - the HM Treasury City Minister's forum for the sector - received the findings from a commissioned report into the use of distributed ledger technology (DLT) by investment funds. The report outlined a model for the tokenisation of UK funds that is compliant with existing regulation and legislative frameworks. The report, endorsed by the FCA, provides the green light for firms to use DLT in the transaction and shareholder register functions of funds. It also foresees that the model will adapt over time, as firms become increasingly confident in using the technology and developments in wider digital finance progress, such as in the availability of stablecoin and central bank digital currency as means of payment.

In December 2023, the Bank of England, the Prudential Regulatory Authority and the FCA published a joint consultation paper entitled 'Operational Resilience: Critical Third Parties to the UK Financial Sector'. This sought industry views on their proposed requirements and expectations for Critical Third Parties to the financial sector (CTPs). The regulators' proposals seek to manage potential risks to the stability of, or confidence in, the UK financial system by strengthening the resilience of the services that CTPs provide to UK-regulated financial services firms and financial market infrastructure entities (FMIs).

The proposals in the consultation take account of industry feedback to a previous discussion paper. Firms and FMIs are increasingly reliant on technology and other services provided by third parties. These services can bring benefits to firms and FMIs, but also pose risks. If many firms rely on the same third party, the failure or disruption of this 'critical' third party could threaten the stability of, or confidence in, the UK financial system. It could also impact market integrity and consumer protection. HM Treasury plans to formally designate third parties as 'critical' based on recommendations from the regulators. It would apply a set of high-level fundamental rules that would apply to all the services that they provide to UK firms and FMIs, including a set of more granular operational risk and resilience requirements; these would only apply to CTPs' 'material services' to firms and FMIs.

7. PENSIONS AND PEPP

Enhanced resilience measures for Defined Benefit (DB) pension schemes using Liability Driven Investment (LDI) strategies

Following the 2022 gilt market volatility in the UK and the subsequent difficulties this caused for DB pension schemes running LDI strategies, the Bank of England's Financial Policy Committee (FPC), working with the FCA, UK Pensions Regulator and relevant EU regulators, introduced a series of measures. These were aimed at enhancing the resilience of UK LDI strategies (including LDI pooled funds):

- The severe but plausible stresses to which LDI strategies should be resilient should account for historic volatility in gilt yields and the potential for forced sales to amplify market stress and disrupt gilt market functioning. The FPC judged that that these factors meant that the size of the yield shock to which LDI funds should be resilient should be - at a minimum - around 250 basis points.
- Liquid assets held to ensure resilience in the event of such a shock should be unencumbered and immediately available. Fund managers should have the scope to consider additional assets that investors had authorised them to use to meet collateral demands. Managers should apply appropriate prudence in doing this, for example by applying suitable haircuts.
- This minimum level of resilience should be maintained in normal times, but could be drawn down on in stress. Minimum resilience around this level would ensure that funds could absorb a severe but plausible historical stress and still have the remaining headroom required to operate during a period of recapitalisation.
- Pension schemes should consider the nature of their exposures, including duration, leverage and concentration of holdings as well as the liquidity, duration and sensitivity of collateral to interest rate changes in modelling their resilience to yield moves.

- Pension schemes using leveraged LDI should be expected to be able to deliver collateral to their LDI vehicles within five days. Those funds and schemes unable to implement these operational standards should be required to be resilient to a larger shock, calibrated to their own operational timelines.
- LDI strategies should maintain additional resilience over and above the minimum. This should allow them to manage day-to-day volatility in yields and account for other risks they may face, including operational risks, in order to be able to maintain the minimum level of resilience in normal times. The amount of additional liquidity held should be calibrated by funds according to their own assessments of their likely liquidity needs, ability to provide collateral within the five-day period specified by regulators, as well as any other regulatory requirements, as well as interest rate trends and levels of market volatility. While this additional liquidity is expected to vary between funds but - when combined with the minimum resilience to yield shocks - overall resilience levels should be broadly consistent with a yield buffer of 300-400 basis points. Liquid asset holdings may be safely reduced over time were fund managers able to demonstrate increased resilience through operational improvements.

The Bank of England has continued to monitor LDI resiliency since the introduction of these measures. Its December 2023 Financial Stability Report 1 observed that the resilience framework for LDI funds had been functioning broadly as intended in an environment of higher market interest rates, with LDI pooled funds being resilient to an almost 400 basis point increase in yields. The Bank of England did note that there remain some areas for improvement, with some LDI managers' recapitalisation in response to falling gilt prices being less than the expected five days.

Increasing investment by Defined Contribution (DC) pension schemes in private assets

The UK Government and regulatory authorities have been, for some time, taking steps to encourage DC schemes to increase their allocations to private assets. There were a number of measures to aid this goal, which took effect in 2023:

- Requirements for DC schemes to disclose their strategic asset allocation.
- A requirement for DC schemes to have an explicit and considered policy on investing in illiquid assets.
- Performance fees - which are typically used with certain private asset classes - were excluded from the DC default strategy regulatory charge cap of 75 basis points.
- The goal here is to make the charge cap less of a constraint when it comes to allocating to private assets.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

UK adoption of Minimum Tax Rules and Domestic Minimum Tax

The Pillar 2 rules are now active in the UK with businesses subject to the Income Inclusion Rule (IIR) provisions for accounting periods on or after 1 January. The Under Tax Payment Rule (UTPR) is set to come into force for the beginning of 2024.

VAT in Fund Management

HM Treasury published a response in December to their earlier consultation on the UK VAT Exemption for Fund Management. They confirmed that no immediate changes will be made to the exemption and reliance can be continued to be placed on existing UK VAT law set out in Items 9 & 10 of Group 5 of the VAT Act 1994 ('VATA94'). No new legislation is proposed, though a review of current guidance is promised aimed at providing 'greater definition' of the application of the UK fund management VAT exemption. Funds, and products similar to funds which may have previously benefited from the VAT exemption under EU law and not explicitly included in Items 9 & 10, may still benefit under different, securities intermediation exemptions.

Reserve Investor Fund

In June 2023, the UK consulted the fund management community on a potential new fund type to add to its growing suite of investment products. The Reserved Investor Fund – known as the 'RIF' – will be a new unauthorised contractual scheme, similar to AIFMD-styled 'Fonds Commun de Placement' (FCPs) and Common Contractual

Funds (CCPs). The immediate appeal for such a product is likely to be in the property sector. Draft legislation on the introduction of the RIF is expected in early 2024.

Long-Term Asset Funds

The first UK Long-Term Asset Funds (LTAFs) were launched in 2023 as ACSs, the UK's contractual scheme structure. The Individual Savings Account (ISA) - the UK's principal form of a tax-free wrapper - is being amended to allow investments into LTAFs under the Innovative Finance ISA banner, in order to promote the product to a wider retail market.

Double tax treaties

The UK signed the Multilateral Instrument (MLI) to implement tax treaty-related measures to prevent base erosion and profit shifting on 7 June 2017. The UK double taxation agreement with Norway has been modified by the MLI entering into force in 2023/24.

- The following tax treaties have been amended during 2023 to update existing agreements, including new competent authority agreements and Memorandums of Understanding: Kyrgyz Republic, Luxembourg, New Zealand, San Marino.
- In August, Russia suspended several of its international tax treaties with 'unfriendly' nations. This included the UK / Russia 1994 convention.

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