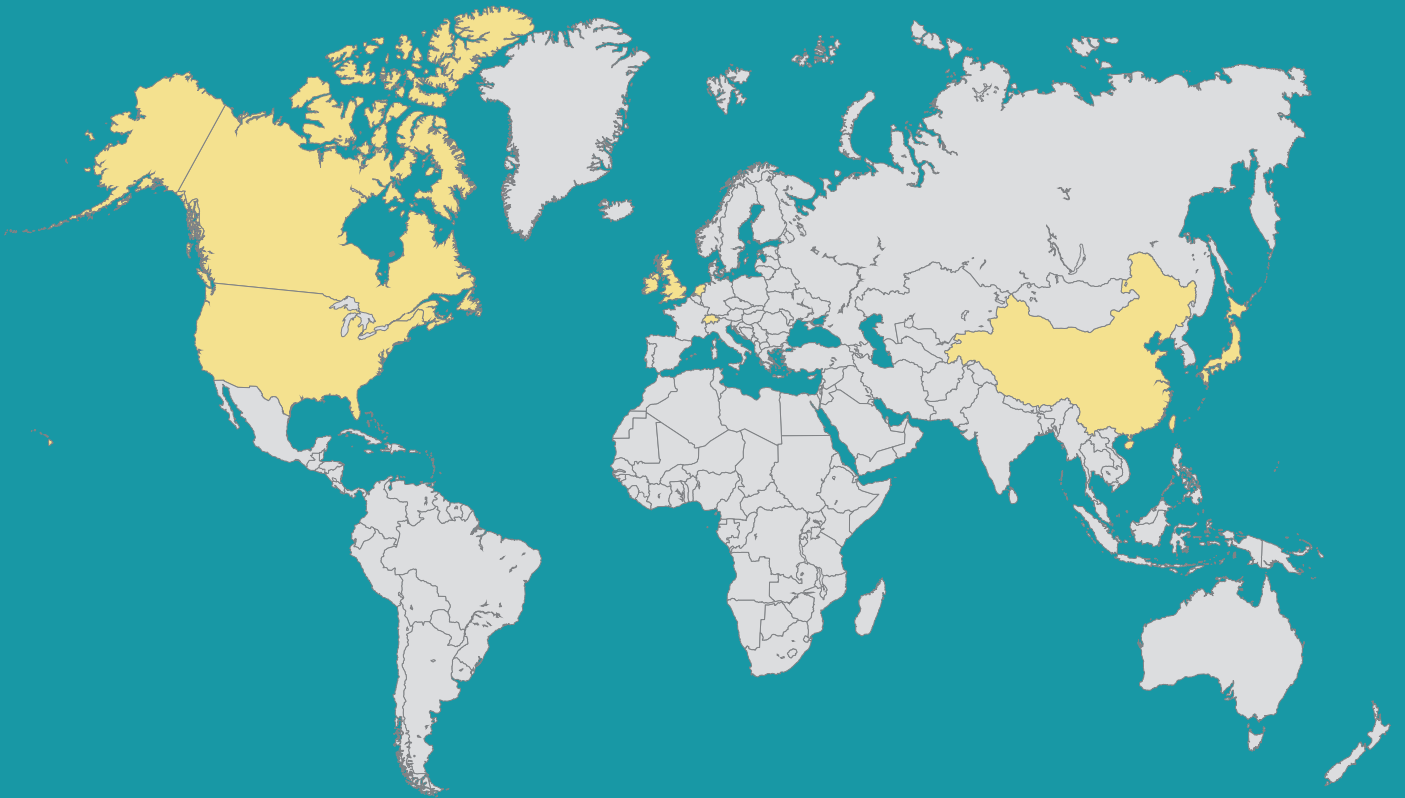


# 2013 Annual Report to Members



## ICI Global Members Are Headquartered in Three Continents and Represent More Than \$1.3 Trillion in Assets



“Given the significant changes happening with investors and regulators in many markets, we believe it’s a crucial time to be contributing to the debate, to ensure managers and their investors have all the facts and can gain a long-term perspective.”

– Nikko Asset Management

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# Letter from the Steering Committee Chairman



*Robert Higginbotham  
Chairman, ICI Global  
Steering Committee  
Group Head of Global  
Investment Services at  
T. Rowe Price*

Second acts—whether in theatre or life—are usually regarded as the most difficult part of any production. ICI Global, however, has proven an exception to that principle. In its second year of operation, the organisation continued to grow, to help funds around the world work towards the best interests of investors, and to demonstrate the importance of the mission set for it by its founders.

During 2013, ICI Global worked closely with funds, managers, and their investors to identify common areas of concern and to create consensus on issues within the organisation's four main policy areas: funds in financial stability, transnational regulatory developments, trading and market structure, and funds in pensions and long-term savings.

As chairman of the ICI Global Steering Committee, I have seen firsthand how ICI Global has made progress on many issues within those policy areas—issues that are important to global fund sponsors and their investors.

ICI Global worked consistently on behalf of funds to ensure that regulators understood the needs and concerns of shareholders—whether that meant we were successfully advocating for additional time to implement the US Foreign Account Tax Compliance Act (FATCA); working with other fund associations and policymakers to ensure that fund managers' remuneration policies are appropriately regulated; or convening members, regulators, and industry experts to discuss global retirement savings challenges.

To accomplish this work, ICI Global calls upon a team of dedicated leaders and staff, as well as the resources of the Investment Company Institute (ICI), the national association of US investment companies. By combining ICI's strengths in law, research, communications, and industry operations with the solid relationships that ICI Global staff have developed with regulators and policymakers around the world, ICI Global has the ability to quickly and successfully respond to the needs of funds and advocate for them on the international stage.

In turn, ICI Global is able to relay information about key regulatory developments and policies to members through an array of channels, including memos, webinars, international conferences, member meetings, and newsletters.

Funds joining the organisation can make their voices heard by participating in the ICI Global Steering Committee and in other ICI Global committees and task forces. In addition, members benefit from ICI's intellectual capital, in the form of empirical research, policy analysis, operations expertise, issue development, and public communications.

During its second year, ICI Global made great strides in developing as an organisation that effectively serves funds and their investors worldwide. I hope you enjoy reading about ICI Global's accomplishments during 2013—a year that set the stage for even greater plans and achievements in 2014. We look forward to serving our members and the global fund community in the years to come.

# Letter from the Managing Director



*Dan Waters  
Managing Director  
ICI Global*

The fund industry is experiencing tremendous growth and globalisation. This growing global footprint brings with it an increase in regulation and the need for an organisation that can synthesise the needs of funds and articulate them on the international stage.

ICI Global is that organisation, as US Securities and Exchange (SEC) Chair Mary Jo White recognised when she praised the launch of ICI Global to ‘give voice to international active investment funds and advocate for transnational solutions to regulatory challenges,’ during the Investment Company Institute’s General Membership Meeting last May.

The need for such an organisation was increasingly evident in 2013—both in the extraordinary growth of ICI Global and in the extraordinary progress we made on issues important to members.

During 2013, ICI Global’s second year of operation, the organisation’s membership base significantly broadened, with 13 new members joining, bringing the total to 40 by year’s end. Eleven of our members are based in the Asia-Pacific region, where the asset management sector is quickly developing and has the potential for tremendous growth.

That development and growth potential has been accompanied by a rapid opening of markets within the region, which has exposed Asia-Pacific funds to a number of regulations with transnational effects, such as the European Markets in Financial Instruments Directive (MiFID) and the US Foreign Account Tax Compliance Act (FATCA). In this environment, it is imperative that Asia-Pacific members are part of the regulatory dialogue, which is why we opened up an office in Hong Kong last spring.

As part of our work in the region, we not only focused on the impact of FATCA and MiFID on Asia-Pacific funds, but also on how regional developments, such as the expansion of the Renminbi Qualified Foreign Institutional Investor Scheme (RQFII), are affecting member funds in Europe. ICI Global addressed these challenges by combining the perspective of member funds with the economic, legal, and operational expertise of our London, Hong Kong, and Washington staffs.

Helping regulators and member funds find common ground on issues important to funds and their investors is at the heart of ICI Global’s work, and regulators are responding to our members’ concerns, as evidenced by the progress ICI Global made last year on several important policy issues, including:

- » successfully advocating for appropriate remuneration policies for fund managers under the Undertakings for Collective Investment in Transferable Securities (UCITS) directive;
- » working with government officials to make sure the final version of the US Volcker Rule did not negatively affect the ability of regulated non-US retail funds to serve investors; and
- » informing regulators’ discussions about a framework under which the mutual recognition scheme between Hong Kong and China could operate.

This report describes ICI Global’s work on these issues and more, as well as the growth we experienced throughout a challenging and satisfying year. During 2014, we will continue to focus on our main policy areas; advocate for a growing base of members and their shareholders; and elevate the influence of investment funds around the world. ICI Global looks forward to working with you to meet these goals.

# Rising in the East: Asia-Pacific Funds and ICI Global

*As Asia-Pacific's asset management sector develops, ICI Global—through its new Hong Kong office—is helping fund managers share their perspectives, address the challenges they face, and raise their voices in the global regulatory dialogue to better represent the needs of investors.*

## EXTRAORDINARY GROWTH POTENTIAL

Asia-Pacific's dynamic, diverse markets are drawing the attention of regulators and investors worldwide due to the rapid development of the region's asset management sector and its extraordinary growth potential.

Several factors are propelling this evolution, including Asia-Pacific's economic resilience in the financial crisis and its aftermath, a rising middle class that will want to save for retirement, and the opening of China's capital markets.

Funds also are becoming an increasingly popular and important tool for Asia-Pacific investors, especially in China and Hong Kong. In fact, the fund industry enjoys tremendous opportunity for further growth and development throughout the region—from countries with fast-developing capital markets, such as India and Malaysia, to countries with large, established markets, such as Australia and Japan.

At the same time, the region is seeing an increase in regulatory efforts that could have transnational effects, meaning it is crucial that regulators worldwide hear the voices from Asia-Pacific's markets.

These trends spurred ICI Global to open an office in Hong Kong last May, led by Qiumei Yang, Executive Vice President and Head of Asia-Pacific.

## ICI GLOBAL'S WORK IN ASIA-PACIFIC

By establishing a physical presence in Asia-Pacific, ICI Global has helped funds create a regional network through which they can come together to discuss and address investors' needs and concerns, including those that revolve around regional issues and regulations.

During this past year, ICI Global set up two task forces, one on the cross-border use of funds through China and Hong Kong's anticipated mutual recognition scheme, and another on developments surrounding the expansion of the Renminbi Qualified Foreign Institutional Investor (RQFII) Programme. ICI Global held several Asia-Pacific meetings to address these topics and other emerging issues such as regional 'fund passports,' agreements that could enable more efficient cross-border distribution of funds by aligning regulatory requirements.

ICI Global also has been helping Asia-Pacific funds that have global ambitions better understand the factors and decisions they must consider when deciding whether to conduct business in other regions. For example, Giles Swan, Director of Global Funds Policy, led a seminar for Asia-Pacific fund managers about both the opportunities and challenges involved in expanding their business to Europe.

Some of those challenges involve navigating European and US regulations, such as the European Union's Markets in Financial Instruments Directive (MiFID) and the US Foreign Account Tax Compliance Act (FATCA). To that end, ICI Global is helping Asia-Pacific fund managers connect with European and US regulators worldwide so managers can better understand how MiFID and FATCA could affect their business. In addition, ICI Global is working with US and European funds that want to expand their business into Asia-Pacific deal with regulations in that region.



*Qiumei Yang (right), Executive Vice President and Head of Asia-Pacific, discusses pension issues with Marie-Anne Kong, partner at PricewaterhouseCoopers, during the 2013 Global Retirement Savings Conference.*



## SEMINAR SERIES: OPPORTUNITIES FOR ASIA-PACIFIC FUND MANAGERS IN EUROPE

Increasingly, as Asia-Pacific fund managers strive to establish a more global business, many are looking to Europe to expand their trading and acquire new shareholders.

Fund managers must consider a wide range of issues, however, when deciding whether to expand their business to Europe. To help Asia-Pacific-based members understand those market, regulatory, and strategic matters, ICI Global joined with Dillon Eustace, a Dublin-based law firm, to cosponsor a seminar series, 'Opportunities for Asian Fund Managers in Europe.' The first seminar took place in Hong Kong on 29 October 2013.

At the seminar, Giles Swan, Director of Global Funds Policy, and Paul Moloney, partner at Dillon Eustace's Hong Kong office, explored from an Asian perspective the opportunities and challenges within the European fund market. Several Hong Kong-based fund managers shared their experiences of expanding into Europe, describing the factors that influenced their strategic and business decisions.

ICI Global plans to host more seminars in other parts of Asia-Pacific.



## KEY MESSAGES

- » Asia-Pacific's asset management sector is rapidly developing and has potential for tremendous growth due to four factors: the region's economic resilience in the financial crisis, a rising middle class in many countries that will want to save for retirement, the opening of China's capital markets, and Asia-Pacific investors' increasing use of funds.
- » ICI Global opened its Hong Kong office, led by Qiumei Yang, in response to two trends: the growth of asset management in the region and the increase in fund regulation with transnational effects.
- » In 2013, ICI Global helped Asia-Pacific funds and their investors navigate a number of regional and global issues, including China and Hong Kong's mutual recognition agreement, developments surrounding RQFII, and the implications of MiFID and FATCA for Asia-Pacific funds.

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

*Around the world, countries are facing long-term retirement savings challenges. As one of its key policy priorities this year, ICI Global fostered dialogues about these challenges and consistently championed the role of investment funds and defined contribution plans in providing for retirement.*

Across the globe, systems for building retirement resources are under increasing pressure. As countries work to implement reforms to confront those pressures, it is important that regulators, government officials, pension experts, and representatives of funds come together to share ideas and learn from one another.

With this goal in mind, ICI Global set up a new committee on global retirement savings issues and fostered international dialogue at two events: the first annual Global Retirement Savings Conference and a seminar that addressed Japan's retirement preparedness in an international context.

## ADDRESSING GLOBAL RETIREMENT SAVINGS CHALLENGES

On 26–27 June 2013 in Hong Kong, ICI Global hosted its first Global Retirement Savings Conference, featuring speakers, panellists, and participants from around the world. More than 100 people representing 13 countries attended the event, including ICI Global member firms, world-renowned industry experts, and regulators from Australia, Hong Kong, Peru, and Sweden.

Keynote speakers included Olivia S. Mitchell, Executive Director of the Pension Research Council at the University of Pennsylvania's Wharton School of Business; the Honourable Anna Wu Hung-yuk, Chairman of the Hong Kong Mandatory Provident Fund Schemes Authority; and Paul Schott Stevens, President and CEO of ICI.

During the conference, attendees discussed retirement systems worldwide, examining the evolution of defined benefit (DB) pensions and pay-as-you-go systems, as well as the growth of defined contribution (DC) systems. Panellists and attendees also talked about the innovative ways that different countries have designed their DC systems, the advantages and challenges of implementing them, and how investment funds are uniquely positioned to serve investors in such systems.

The discussions made it apparent that countries considering retirement challenges must focus on five issues: adequacy and sustainability, distribution of resources, choice of investment vehicle, plan design, and financial literacy.

11

Number of regulators who attended the 2013 Global Retirement Savings Conference





Those issues, as well as the observations and ideas that came out of the conference, are documented in the post-conference report, *Insights from the 2013 Global Retirement Savings Conference*.

The report and executive summary are available at [www.iciglobal.org/grsc](http://www.iciglobal.org/grsc). The executive summary of the report is available in English, Chinese, and Japanese.



*The Honourable Anna Wu Hung-yuk discusses the Hong Kong Mandatory Provident Fund system at the 2013 Global Retirement Savings Conference.*



## RETIREMENT PREPAREDNESS IN A GLOBAL CONTEXT

Retirement preparedness and the DC system took center stage during a retirement seminar in Tokyo on 5 March 2013.

Sponsored by the American Chamber of Commerce in Japan, ICI Global, and ICI, this event addressed Japan's retirement preparedness in an international context by highlighting how different countries are confronting long-term retirement savings challenges.

Managing Director Dan Waters opened the event by describing how nine different countries—Australia, Chile, Hong Kong, Japan, New Zealand, Singapore, Sweden, the United Kingdom, and the United

States—have adopted and adapted DC systems to fit the needs of their specific institutions, populations, and economies.

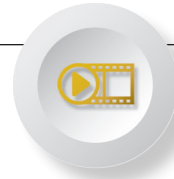
Following Waters's remarks, Associate Counsel for Pension Regulation Anna Driggs explained how Americans build resources for retirement, with a particular focus on the 401(k) system.

Koji Sugita, research fellow with the Japan Securities Research Institute, closed the seminar by discussing Japan's system, what Japan can learn from other countries, and how the country can confront and solve its long-term retirement savings challenges.



## KEY MESSAGES

- » With many countries facing long-term retirement savings challenges, ICI Global is fostering global dialogues to discuss them, and to champion the role of investment funds and DC plans in providing for retirement.
- » ICI Global's first annual Global Retirement Savings Conference examined the evolution of retirement systems worldwide, the differences in DC plans across the globe, and how funds can help meet long-term retirement savings challenges. When considering retirement planning, countries must focus on five issues: adequacy and sustainability, distribution of resources, investment vehicles, plan design, and financial literacy.
- » At a seminar sponsored by the American Chamber of Commerce in Japan, ICI Global, and ICI, participants addressed Japan's retirement preparedness in an international context by highlighting how different countries are confronting long-term retirement savings challenges.



**WATCH MANAGING DIRECTOR DAN WATERS AND PRESIDENT PAUL SCHOTT STEVENS DISCUSS INSIGHTS FROM THE 2013 GLOBAL RETIREMENT SAVINGS CONFERENCE.**

[www.iciglobal.org/video/grsc](http://www.iciglobal.org/video/grsc)

# Transnational Regulatory Developments

*As the fund industry becomes increasingly global, regulations with cross-border effects also continue to grow in number and significance. Throughout 2013, European, Asia-Pacific, and US policymakers proposed or continued work on many transnational regulations, and ICI Global actively engaged with government officials and regulators to ensure that such regulations do not inadvertently harm funds and their investors.*

## ADVOCATING FOR APPROPRIATE REMUNERATION POLICIES

In spring 2013, a European Parliament committee proposed a set of changes to remuneration guidelines under the fifth iteration of Undertakings for Collective Investment in Transferable Securities (UCITS V) that would have constrained performance fees charged by fund managers and limited a fund manager's bonus to no more than 100 percent of the manager's base salary.

ICI Global believes it is important for asset management firms to have sound remuneration policies and practices that encourage effective risk management but discourage inappropriate risk taking. With that in mind, ICI Global worked with an international coalition of fund associations to ensure Parliament understood the ramifications of the proposed bonus cap; last summer, Parliament rejected the cap.

## A TAILORED APPROACH TO BENCHMARK REGULATION

Last year, in the wake of the London Interbank Offered Rate (LIBOR) controversy, regulators launched efforts to scrutinise the methodology, use, and oversight of financial benchmarks.

The first of these was the Wheatley Review in the United Kingdom, which specifically focused on LIBOR. Efforts that followed—including reviews by the International Organization of Securities Commissions (IOSCO), the Financial Stability Board (FSB), the European Commission, and the European Securities and Markets Authority (ESMA)—broadened the scope to consider additional regulation for commercial indexes tracked by many funds.

In letters and meetings, ICI and ICI Global urged regulators to carefully distinguish between survey-based and commercial benchmarks. Applying the same

ICI Global's substantive comments on applying the proposed European bonus caps to mutual fund managers and the European Commission's proposed financial transactions tax are important to the dialogue on these international issues.

– US Securities and Exchange Commission Chair Mary Jo White

regulatory response across the range of benchmarks, ICI and ICI Global argued, would lead to needless costs ultimately borne by investors.

In July 2013, IOSCO released its final report on financial benchmarks, outlining 19 principles that set standards for benchmark governance, quality of methodology, and accountability. Consistent with recommendations from ICI and ICI Global, the report acknowledged that the universe of benchmarks is large and diverse, and that not all standards would apply to all benchmarks.

## NAVIGATING RQFII AND MUTUAL RECOGNITION

Last year saw significant expansion of the Renminbi Qualified Foreign Institutional Investor (RQFII) programme, which holds great potential for both European and Asia-Pacific member funds.

In a move to open up its capital markets, China offered RQFII quotas to a much wider range of fund managers located in Hong Kong. These quotas allow fund managers and funds domiciled in Hong Kong to invest in China's securities market. Shortly thereafter, London

and Singapore also obtained RQFII quotas, further enhancing their status as offshore renminbi trading centres.

Leading up to and during these developments, ICI Global set up an RQFII task force not only to help Asia-Pacific and European member funds better understand how an expanded RQFII regime might work in practice, but also to lead coordination efforts. To that end, ICI Global engaged on members' behalf with a number of Asian and European authorities, including the China Securities Regulatory Commission (CSRC), the Hong Kong Securities and Futures Commission (SFC), and the UK Financial Conduct Authority (FCA).

In another move to open up China's capital markets, the CSRC worked with the SFC to propose and map out a regulatory framework to permit investment funds domiciled in Hong Kong and China to be sold in each other's jurisdictions.

To ensure that regulators heard members' views as the CSRC and SFC developed the platform, ICI Global created a mutual recognition task force. During meetings last year, the task force created and finalised its

*continued on page 11*



## FINANCIAL TRANSACTION TAX: HARMFUL TO INVESTORS WORLDWIDE

Eleven European Union (EU) member states are negotiating a proposal for a financial transaction tax (FTT), despite warnings about an FTT's negative impact. The tax would apply broadly and have a significant extraterritorial effect, because it would be imposed to covered transactions regardless of where a fund is organised.

In February 2013, ICI and other US-based trade associations wrote to the EU's taxation commissioner, expressing concern over the extraterritorial and negative effects of an FTT. In addition, throughout the spring, ICI Global met with senior government officials from several EU countries, including some supporting the FTT, to discuss the organisation's concerns.

Although the financial industry received welcome news in September when the EU Council's Legal Service opined that a significant element of the FTT proposal is illegal under EU law, the European Commission issued an opposing response shortly thereafter, defending the FTT's legality.

As the 11 EU member states continue to discuss their proposal, ICI and ICI Global will keep engaging policymakers and continue to urge the relevant European authorities and countries to abandon FTTs. No matter where it is introduced—in the United States, Europe, or elsewhere—an FTT would harm investors, slow economic growth, and make markets less efficient.

*For more information on FTTs, please visit [www.ici.org/ftt](http://www.ici.org/ftt).*



## ENGAGING IN THE IMPLEMENTATION OF FATCA

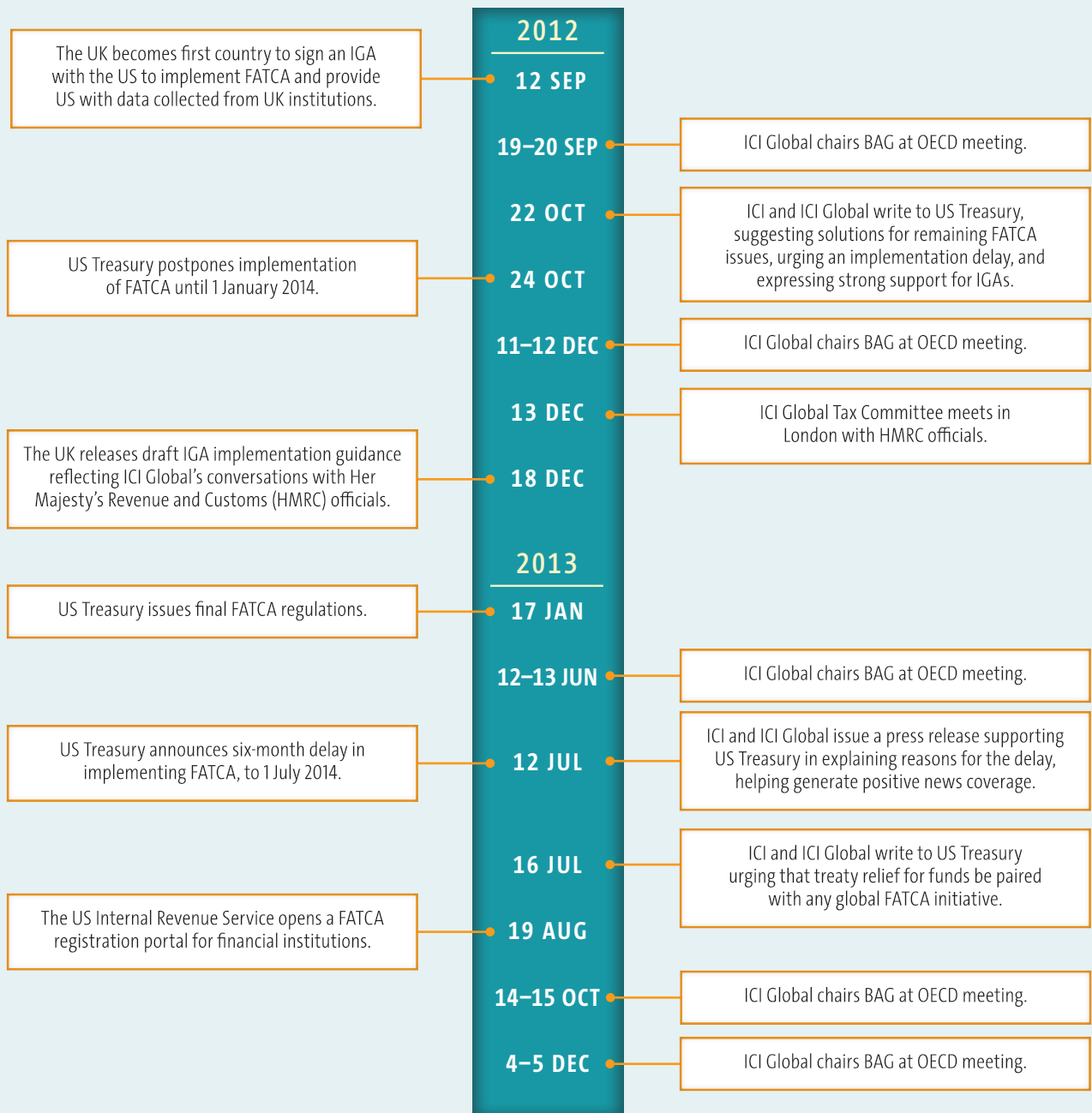
Throughout the year, ICI and ICI Global worked closely with regulators and government officials worldwide to maximise the benefits of the US Foreign Account Tax Compliance Act (FATCA) while minimising its burdens. These efforts contributed to the signing or initialling of at least 28 intergovernmental agreements (IGAs), and played a role in the US Treasury's decision to grant a six-month delay for FATCA implementation.

Senior Counsel for Tax Law Keith Lawson led efforts to coordinate the actions of a broad coalition of financial services associations. As chair of the FATCA Business Advisory Group (BAG),

formed to assist the Organisation for Economic Co-operation and Development (OECD), Lawson led business presentations at several OECD meetings that focused on reporting formats and other implementation issues.

In spring 2013, the OECD began discussing a FATCA-based global initiative that will assist countries in exchanging taxpayer-specific data. Lawson chaired the BAG in several meetings at the OECD that focused on the automatic exchange of information (AEOI) initiative and on the need for a global solution to implementation issues.

*For more information on FATCA, please visit [www.iciglobal.org/fatca](http://www.iciglobal.org/fatca).*



The expansion of the RQFII programme is important because it creates numerous opportunities for UK, European, and Asia-Pacific investors while broadening the range of investors who can access the Chinese securities market.

– Giles Swan, Director of Global Funds Policy

*continued from page 9*

initial positions on a basic framework under which mutual recognition could operate. ICI Global is now working on presenting the task force's position on the framework to Hong Kong and Chinese regulators.

### APPROVAL OF THE VOLCKER RULE

After more than two years, in late 2013 US regulators approved a final rule to implement the Volcker Rule provisions of the Dodd-Frank Act. Enacted by the US Congress in 2010, these provisions prohibit 'banking entities' from engaging in proprietary trading and from sponsoring or investing in hedge funds or private equity funds.

Concerned that the proposed implementing rule would impede the organisation, sponsorship, and normal activities of non-US retail funds, ICI Global and ICI argued—in meetings and through letters—that the final rule should expressly exclude non-US retail funds. ICI Global stressed that the rule as proposed would be exceptionally disruptive to the global securities markets, including the market for non-US sovereign debt and non-US exchange-traded funds.

ICI Global and ICI are continuing to work on understanding the full scope and impact of the final rule. ICI Global is pleased, however, that regulators were attentive to its concerns about the proposed rule's potential impact on the ability of regulated non-US retail funds around the globe to serve investors.



## KEY MESSAGES

- » ICI Global worked with a coalition of fund associations to ensure that the European Parliament understood the ramifications of a proposed cap on UCITS fund managers' bonuses, and was pleased when the Parliament voted against the cap.
- » During 2013, regulators scrutinised the methodology, use, and oversight of financial benchmarks. ICI and ICI Global urged regulators to distinguish between survey-based and commercial benchmarks. When IOSCO released its final report on financial benchmarks, ICI and ICI Global were happy the report acknowledged that the universe of benchmarks is large and diverse, and that not all standards would apply to all benchmarks.
- » In moves to open up its capital markets, China expanded its RQFII programme and proposed a regulatory framework for a mutual recognition platform between China and Hong Kong. To help funds navigate and take advantage of these developments, ICI Global set up two task forces and met with regulators in Asia and Europe to inform their work on these two initiatives.
- » US regulators approved a final rule to implement the Volcker Rule late last year. Both ICI and ICI Global appreciated that regulators were attentive to their concerns about the proposed rule's potential impact on regulated non-US retail funds' ability to serve investors.

# Communicating ICI Global's Mission and Goals

*Throughout the year, ICI Global actively engaged with the media to raise awareness about issues of importance to funds and their investors. ICI Global also began to inform members about developments affecting the fund industry through the introduction of ICI Global Daily.*

## **NEW MEMBER BENEFIT: ICI GLOBAL DAILY**

ICI Global strives to keep its members updated about the latest policy and industry issues that are important to funds and their investors. To that end, last year the organisation introduced *ICI Global Daily*.

*ICI Global Daily* is an e-newsletter that arrives in members' inboxes each weekday morning, featuring the latest stories about developments affecting funds and their shareholders. This daily digest also includes ICI Global memos about crucial policy

developments, information about upcoming committee and task force meetings, and the latest comment letters.

When issues and events demand more detailed coverage, members receive a special edition of *ICI Global Daily*. In addition, Managing Director Dan Waters periodically sends an e-newsletter to members, offering an in-depth yet concise analysis of important issues and what ICI Global is doing on behalf of member funds to address those critical topics.

www.iciglobal.org

## ICI Global DAILY

### Latest ICI Global Memos

**COMMITTEE NOTICE:** Implications of the Volcker Rule for Regulated Funds—  
Conference Call  
MEMO 87321

**COMMITTEE NOTICE:** European Commission Publishes Proposal for Money Market  
Fund Regulation  
MEMO 87322

### In the News

**Today's news summary is also available on the ICI Global website.**

- ▼ ICI Global Bolsters Ties Between Asian Asset Managers and Regulators Worldwide
- ▼ Hong Kong, China to Sign Cross-Border Funds Deal
- ▼ Mexico to Publish Derivatives Rules Soon: Banking Regulator
- ▼ VIDEO: Pension Funds Moving to Less Liquid Asset Classes

### Member Resources

- ICI Global Memos
- ICI Memos
- Comment Letters
- Resource Centers
- Contact ICI Global



## ICI GLOBAL IN THE NEWS

During 2013, ICI Global raised awareness about funds and the benefits they provide, as well as about ICI Global's efforts on behalf of the fund

industry. The following news outlets covered or met with ICI Global to discuss issues affecting funds and their investors.

- » *Asia Asset Management*
- » *AsianInvestor*
- » *The Asset*
- » *Automated Trader*
- » *Benefits & Compensation International*
- » *Bloomberg*
- » *Citywire*
- » *CNBC Asia-Pacific*
- » *CNBC Europe*
- » *Daily Telegraph*
- » *Dow Jones*
- » *The Economist*
- » *Euromoney*
- » *European Voice*
- » *Europolitics*
- » *Financial News*
- » *Financial Times*
- » *Financial Times Fund Management (FTfm)*
- » *Funds Europe*
- » *Funds Global Asia*
- » *FX Week*
- » *Hong Kong Economic Journal*
- » *Hong Kong Economic Times*
- » *Ignites*
- » *Ignites Asia*
- » *Ignites Europe*
- » *International Adviser*
- » *International Investor*
- » *Investidor Institucional*
- » *InvestmentNews*
- » *Investment Europe*
- » *IPA Investment and Pensions Asia*
- » *IPE Investment and Pensions Europe*
- » *London Evening Standard*
- » *Ming Pao Daily News*
- » *Nikkei Asian Review*
- » *Oriental Daily News*
- » *Pensions & Investments*
- » *Reuters*
- » *Risk*
- » *SmartBrief*
- » *South China Morning Post*
- » *Thompson Reuters Accelus™ Compliance Complete*
- » *The TRADE*
- » *Times of London*
- » *Wall Street Journal*
- » *Wall Street Journal Europe*

ICI Global is now set on helping Asian fund managers expand their presence out of the region with its expertise in international law and industry operations.

– *Asia Asset Management*

# The Role of Funds in Financial Stability

*As regional and global regulators examine whether the asset management sector poses risk to financial stability, ICI Global and ICI are working on behalf of members to inform regulatory and policy initiatives on the operation of money market funds, securities lending, and related issues.*

## EDUCATING REGULATORS ABOUT SYSTEMIC RISK

As part of the Group of Twenty's (G20) agenda to strengthen the resilience of the global financial system, policymakers and regulators around the world are considering whether asset management firms or the funds they manage might pose risks to financial stability. ICI Global and ICI have worked vigorously to ensure that policymakers understand why regulated funds and their managers have not been—and are unlikely to be—sources of systemic risk.

In September 2013, the US Treasury's Office of Financial Research (OFR) released a study attributing a number of hypothetical risks to asset management activities. The study was intended to inform the Financial Stability Oversight Council (FSOC) on whether any asset managers should be designated as 'systemically important financial institutions' (SIFIs) and thus subjected to additional regulation.

Through comments to and meetings with top officials from government and regulatory agencies, ICI

stressed that the report should not be used to support SIFI designations or any other regulatory action in the United States, arguing that it reflected poor understanding of key characteristics of registered funds and their advisers, portrayed an inaccurate and incomplete view of the industry, and ignored or misinterpreted data.

European and global regulators also have been taking a closer look at the asset management sector and financial stability. The European Parliament adopted a report calling upon the European Commission (EC) to assess whether any asset managers should be designated as systemically important, while the Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) have proposed methodologies for identifying global systemically important financial institutions (G-SIFIs) in the asset management sector. Advocating on behalf of member funds, ICI Global and ICI have been discussing with IOSCO and national regulators why neither regulated funds nor their advisers pose the risks that G-SIFI designation is intended to address.

73

Number of meetings ICI Global had with international regulatory organisations and influential policymakers





## CONTINUING TO DEFEND MONEY MARKET FUNDS

During 2013, policy activity around money market funds remained intense. In the United States, the Securities and Exchange Commission (SEC) proposed regulations, and shortly thereafter, the EC released a sweeping reform package targeting both variable net asset value (VNAV) and constant NAV (CNAV) money market funds.

The most problematic provision in the EC's proposal was a 3 percent capital buffer for CNAV funds. The proposal also prohibited VNAV funds from using amortised cost valuation, and included a definition of mark-to-market valuation that was inconsistent with international and US accounting standards.

In meetings with European government officials, ICI Global strongly opposed these changes. Senior Counsel for International Affairs Susan Olson stressed that the proposed capital buffer was economically infeasible and impractical for member funds. Working with members and other European industry representatives, ICI Global proffered amendments to replace the capital buffer with enhanced liquidity, public portfolio disclosure, and fees and gates. ICI Global also submitted amendments to revise the valuation provisions to permit the use of amortised cost valuation, and to require the EC's reforms to follow international accounting standards.

## MOVING FORWARD ON SECURITIES LENDING AND REPOS

In fall 2013, the FSB issued its first set of recommendations for regulating securities lending and repo activities. One of the most controversial issues involved final recommendations on mandatory minimum numerical haircuts, which ICI Global opposed. Haircuts—percentage discounts applied to the market value of assets used as collateral—are a key economic term in securities lending and repo transactions. ICI Global and its members believe that regulators should not inappropriately dictate terms that should be left to market negotiations.

ICI Global was pleased that instead of rushing to adopt proposed mandatory minimum haircuts, the FSB significantly revamped its proposal and issued a second consultation to gain further input. The proposed haircuts are now far lower than those previously recommended by the FSB, and the scope of the proposal is far narrower. As a result, members' activities are largely excluded from the mandatory minimum haircuts. While appreciative of the lower haircuts and narrower scope, ICI Global nevertheless conveyed its ongoing concerns about regulatory prescription in this area, expressing its belief that certain terms are best left to the market to determine.



### KEY MESSAGES

- » As regulators analyse whether any entities in the asset management sector might pose risk to financial stability, ICI Global and ICI will continue to inform regulators about why registered investment companies and similar regulated funds and their advisers have not been—and are highly unlikely to be—a source of systemic risk.
- » ICI Global strongly opposed problematic provisions in the European Commission's proposed money market fund recommendations, including a 3 percent capital buffer for CNAV funds and a ban on amortised cost for VNAV funds.
- » The FSB issued final recommendations on regulating securities lending and repos, and a consultation on haircuts. The consultation has a much narrower scope, largely excluding ICI Global members' activity from minimum numerical haircuts.



WATCH MANAGING DIRECTOR DAN WATERS DISCUSS THE EUROPEAN COMMISSION'S MONEY MARKET FUND PROPOSAL.

[www.iciglobal.org/video/ec\\_mmf](http://www.iciglobal.org/video/ec_mmf)

# Trading and Market Structure

*Jurisdictions around the world face difficult questions about the rapidly evolving structure of their markets—including, most significantly, the impact of advancing technology on trading. This and other questions demand continual close attention from regulated investment funds and others on the buy-side. ICI Global provides that focus on behalf of funds and their investors.*

This past year, ICI Global commented on numerous proposals from regional and global policymakers that have implications for member funds, including the European Union's reform of the Markets in Financial Instruments Directive (MiFID), a proposal by Australia on dark liquidity and high-frequency trading, and a consultation from the International Organization of Securities Commissions (IOSCO) on possible risks posed by existing and developing market structures.

## CONVEYING MEMBER CONCERNS ABOUT MIFID

In Europe, the reform of MiFID remained the most significant regulatory development relating to trading and market structure.

ICI Global weighed in on a number of issues that could affect funds, including the transparency of market information, waivers from transparency requirements,



## AMPLIFYING THE BUYSIDE'S VOICE

As regulators around the world examine numerous issues affecting market structure and trading, it is imperative that investors' voices are heard. ICI Global brought together regulators and legislators, as well as thought leaders from the buy-side and sell-side, to discuss market structure issues at its second annual Trading and Market Structure Conference.

On 9 December 2013, more than 150 senior leaders from major financial institutions gathered in London to hear from several keynote speakers, including:

» David Wright, Secretary General of IOSCO, who called for greater buy-side transparency and reiterated the need for a global regulator that can

resolve disputes between countries over market rules;

- » Martin Wheatley, Chief Executive of the UK Financial Conduct Authority, who spoke about several issues specific to MiFID, including potential restrictions on dark trading; and
- » Michael Piwowar, Commissioner at the US Securities and Exchange Commission (SEC), who discussed his proposals for a comprehensive review of the rules governing US trading.

Organised by Ari Burstein, Senior Counsel for Capital Markets, the conference also examined issues relating to liquidity, buy-side trading, and operational risks in the markets.

*To read coverage about the conference, including stories from CNBC, Reuters, and FT Adviser, visit [www.iciglobal.org/icig\\_inthenews](http://www.iciglobal.org/icig_inthenews).*

and new requirements surrounding automated and high-frequency trading.

To ensure that policymakers and regulators understood members' concerns about these issues, ICI Global met with members of the European Parliament, the European Commission, and financial attachés from several countries within the region. ICI Global also met with representatives from the UK Financial Conduct Authority (FCA) and Her Majesty's Treasury, and discussed these matters with officials from the most recent and current presidencies of the EU Council.

### AUSTRALIA EXAMINES DARK LIQUIDITY AND HIGH-FREQUENCY TRADING

In 2013, the Australian Securities and Investment Commission (ASIC) released new market-integrity rules on dark liquidity (trades conducted outside of public exchanges) and high-frequency trading. Many of the final rules were in alignment with ICI and ICI Global's comments on earlier versions.

In particular, ICI Global was pleased that ASIC did not adopt requirements for a minimum resting time or order-to-trade ratios. ICI Global had expressed reservations about such requirements because they would have negatively affected funds' electronic trading abilities, and was happy that ASIC considered member concerns.



*David Wright, Secretary General of IOSCO, discusses the need for greater buy-side transparency during the 2013 Trading and Market Structure Conference.*

### IOSCO ISSUES MARKET STRUCTURE CONSULTATION

On the global level, IOSCO issued a consultation identifying possible issues and risks posed by existing or developing market structures. An accompanying report also provided recommendations to address these potential risks. After talking with members, ICI and ICI Global submitted a comment letter expressing their support for several of IOSCO's recommendations, including those that would help regulators monitor the effect of fragmentation on the markets and those that would promote better availability and transparency of market information.



## KEY MESSAGES

- » MiFID remained the most significant European regulatory development relating to trading and market structure. ICI Global advocated for members' concerns on a number of issues, including transparency of market information and requirements surrounding automated trading.
- » ASIC released new market integrity rules on dark liquidity and high-frequency trading. ICI Global was pleased that ASIC considered its input and did not adopt certain requirements that would have negatively affected electronic trading.
- » ICI and ICI Global supported many of the recommendations in a new IOSCO market structure consultation, including those relating to the transparency of market information and the effect of fragmentation on the markets.

## APPENDIX A ORGANISATION

ICI Global is the global affiliate of the Investment Company Institute (ICI). ICI Global's members are regulated funds publicly offered to investors in leading jurisdictions worldwide. ICI Global seeks to advance the common interests and promote public understanding of global investment funds, their managers, and investors. Members of ICI Global manage total assets in excess of US\$1.3 trillion. ICI Global is headquartered in London, and has an office in Hong Kong.

The Investment Company Institute Board of Governors established ICI Global and created the ICI Global Steering Committee as a standing committee of the Institute in October 2011. The Steering Committee is composed of senior executives from leading global asset managers (see Appendix B on page 19) and develops ICI Global's policy agenda and positions. In addition, a number of committees, task forces, and chapters composed of professionals from ICI Global member firms (see Appendix C on page 20) inform ICI Global's policy and membership work. ICI Global's managing director oversees the ICI Global staff and reports to ICI's president and chief executive officer.

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

ICI Global leverages the intellectual capital of ICI. Based in Washington, DC, ICI brings the broad expertise of legal, regulatory, research, public communication, and fund industry operation experts to help ICI Global execute its policy agenda. ICI is the national association of US mutual funds, exchange-traded funds, and other registered investment companies. The Institute's US member funds represent 98 percent of the US mutual fund market, serve more than 90 million investors, and manage total assets of US\$16.3 trillion as of 31 December 2013.

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

## APPENDIX B

# ICI GLOBAL STEERING COMMITTEE

(As of 31 December 2013)

**Robert Higginbotham (Chairman)**  
President, Global  
Investment Services  
T. Rowe Price International Ltd.

**Mark Armour**  
Chief Executive Officer  
Invesco Perpetual

**Andrew Arnott**  
President and CEO, John  
Hancock Funds  
John Hancock Financial Services, Inc.

**Richard Bisson**  
President  
Nomura Asset Management  
UK Limited

**David J. Brennan**  
Chairman and CEO  
Baring Asset Management Limited

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

**Iris Chen**  
Chief Executive Officer  
China Asset Management  
(Hong Kong) Limited

**Peng Wah Choy**  
Chief Executive Officer  
Harvest Global Investments Limited

**Robert Conti**  
Chief Executive Officer  
Neuberger Berman Management LLC

**Chen Ding**  
Chief Executive Officer  
CSOP Asset Management Limited

**Gregory P. Dulski**  
Senior Corporate Counsel,  
International  
Federated Investors, Inc.

**Mark Flaherty**  
Chief Investment Officer, UK  
Fidelity Management &  
Research Company, UK

**Campbell Fleming**  
Chief Executive Officer  
Threadneedle Investment  
Services Limited

**Hamish Forsyth**  
President, Europe  
Capital Group Companies Global

**Toby E. Goold**  
Managing Director  
Dodge & Cox Worldwide  
Investments Ltd.

**James S. Hamman**  
Director  
Artisan Partners Global Funds, plc

**James He**  
Director of Risk Management  
HuaAn Fund Management Co., Ltd.

**Arnie Hochman**  
Vice President, Legal  
TD Bank Financial Group

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

**Terry Johnson**  
Head, International Sales  
Legg Mason Investments  
(Europe) Limited

**Arthur J. Lev**  
Managing Director and Head,  
Long Only Business  
Morgan Stanley Investment  
Management Inc.

**David Levi**  
Managing Director and Head of  
Global Business Development  
Nuveen Investments

**Andy Lin**  
Chief Executive Officer  
China Universal Asset  
Management Co. Ltd.

**Zhang Lixin**  
Chief Executive Officer  
Fullgoal Asset Management (HK) Ltd.

**Ross Long**  
Chief Legal Officer  
Nikko Asset Management Co., Ltd.

**Brenda Lyons**  
Executive Vice President  
State Street Bank and  
Trust Company

**Lina Medeiros**  
President of Distribution for UCITS  
MFS International (UK) Limited

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

**Nicholas Phillips**  
Co-Head of GSAM  
Distribution for Europe  
Goldman Sachs Asset  
Management International

**Jed Plafker**  
Executive Managing Director  
Franklin Templeton Investments

**Niall Quinn**  
Managing Director  
Eaton Vance Management  
(International) Limited

**Karla M. Rabusch**  
President  
Wells Fargo Funds Management, LLC

**Tom Rice**  
Executive Vice President,  
European Legal Counsel  
PIMCO Europe Ltd.

**Timothy Ryan**  
Chief Executive Officer, UK  
and Co-Head, EMEA  
AllianceBernstein, Ltd.

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

**Peter Schwicht**  
Managing Director  
JPMorgan Asset Management  
(UK) Limited

**Roger Thompson**  
Chief Financial Officer  
Henderson Group plc

**Liz Ward**  
Head of Europe  
UBS Global Asset Management (UK)

**Ben Y. B. Zhang**  
Managing Director  
Hai Tong Asset Management  
(HK) Limited

## APPENDIX C ICI GLOBAL MEMBERS

*(As of 31 December 2013)*

AllianceBernstein, Ltd.	Invesco Perpetual
Artisan Partners Global Funds, plc	J.P. Morgan Asset Management (UK) Limited
Baring Asset Management Limited	John Hancock Financial Services, Inc.
Capital Group Companies Global	Legg Mason
China Asset Management (Hong Kong) Limited	Matthews International Capital Management, LLC
China International Fund Management Co., Ltd.	MFS Investment (UK) Limited
China Universal Asset Management Co. Ltd.	Morgan Stanley Investment Management Inc.
CSOP Asset Management Limited	Neuberger Berman Management LLC
Dodge & Cox Worldwide Investments Ltd.	Nikko Asset Management Co. Ltd.
E Fund Management (HK) Co. Ltd.	Nomura Asset Management Co., Ltd.
Eaton Vance International (Ireland) Funds plc	Nuveen Investments
Federated Investors Funds	PIMCO Europe Ltd.
Franklin Templeton Investors	Pyramis Global Advisors (UK) Limited
Fullgoal Asset Management (HK) Ltd.	SSgA Funds Management, Inc.
Goldman Sachs Asset Management	T. Rowe International Ltd.
Hai Tong Asset Management (HK) Limited	TD Asset Management, Inc.
Harvest Global Investments Limited	Threadneedle Investment Services Limited
Henderson Global plc	UBS Global Asset Management (UK)
HuaAn Fund Management Co., Ltd.	Vanguard Asset Management Limited
ING Investment Management	Wells Fargo Funds Management, LLC

## APPENDIX D ICI GLOBAL COMMITTEES AND TASK FORCES

*(As of 31 December 2013)*

### COMMITTEES

Asia-Pacific Chapter  
Global Retirement Savings Committee  
Exchange-Traded Funds Committee  
Regulated Funds Committee  
Tax Committee  
Trading and Market Structure Committee

### TASK FORCES

Mutual Recognition Task Force  
RQFII Task Force  
Securities Lending and Repo Task Force  
Shadow Banking Task Force

## ICI GLOBAL'S KEY APPEARANCES AND EVENTS

### ICI Global Speeches and Testimonies

5 March 2013	ACCJ Seminar on Retirement Preparedness: Global Pension System Reforms Tokyo
15 May 2013	EDHEC Risk Day's Asia 2013: Indexation and Passive Investment Conference Singapore
21 May 2013	Infoline's AIFM Directive—Level 2 Implementation Conference London
25 June 2013	<b>Fund Forum International</b> Monaco
28 June 2013	IOSCO Board Meeting with Financial Market Stakeholders Madrid
16 September 2013	<b>IOSCO 38th Annual Conference</b> Luxembourg
10 October 2013	PricewaterhouseCooper Asset Management Conference Hong Kong
20 November 2013	<b>Asian Investor's Art of Asset Management Conference</b> Hong Kong
20–21 November 2013	<b>TradeTech Asia Conference</b> Singapore

### ICI Global Events

10 January 2013	<b>Webinar on Tri-Party Repo Market Reform</b>
26 June 2013	Global Retirement Savings Conference Hong Kong
29 October 2013	Seminar Series: Opportunities for Asian Fund Managers in Europe Hong Kong
9 December 2013	ICI Global Trading and Market Structure Conference London



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Membership in ICI Global is open to global investment funds that invest in securities, are substantively regulated, and are available to the general public in jurisdictions around the world.

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