

ICI VIEWPOINTS

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Cross-Border Frictions Within EU Capital Markets Can Drive Up Costs

By Victor Van Hoorn and James Duvall

The [EU Retail Investment Strategy \(RIS\)](#) aims to advance the Capital Markets Union (CMU) and empower retail investors to save and invest more effectively, including through UCITS and similar products. One important element of the European Commission's RIS proposal is a focus on "value for money."

In developing policies to empower retail investors, it is critical to understand that cost is just one component of any assessment of value. In a [previous ICI Viewpoints post](#), we highlighted our serious concerns with the Commission's misguided concept to mandate the use of cost benchmarks to evaluate fund offerings. Here, we discuss a positive policy measure that could decrease costs for investors and bolster the CMU: reducing the fragmentation in requirements for UCITS across EU Member States.

ICI Global strongly encourages EU authorities to use the opportunity of the RIS to reduce or eliminate local marketing and registration requirements for UCITS in Member States. Doing so would help alleviate the additional costs incurred by cross-border UCITS, better positioning them to take advantage of economies of scale, increase efficiencies, and pass these savings on to retail investors.

Average Ongoing Charges of Cross-Border UCITS

The growth of UCITS has occurred hand in hand with the EU passporting regime. With the passport, a UCITS established in one EU Member State can be sold cross-border into one or more others. Net assets of cross-border funds domiciled in the EU grew from €2.6 trillion at year-end 2011 to €7.0 trillion

by April 2023.

Being available for sale in multiple countries gives cross-border funds access to more investors, allowing these funds to more readily gain economies of scale. The average size of a cross-border UCITS equity fund in April 2023 was €533 million, nearly twice the average size of a single country equity fund (€273 million).

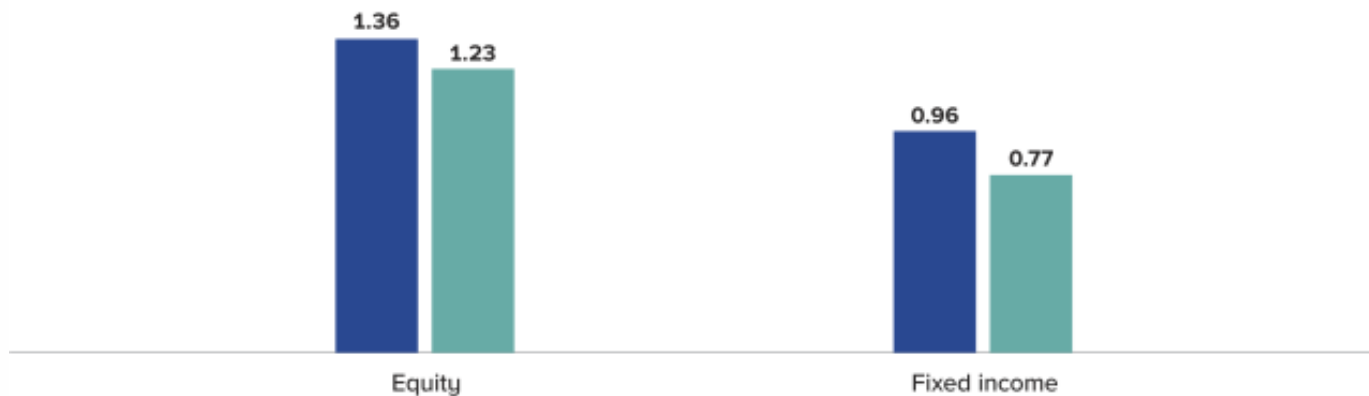
Nevertheless, average ongoing charges in cross-border funds tend to be higher than those for single-country funds in part because most Member States impose local requirements on the marketing of cross-border funds, incurring additional costs for funds in each country in which they are registered and available for sale. [Recent reforms](#) at the EU level have aimed to drive convergence or complete removal of local requirements that Member States impose on cross-border funds. Despite this, some EU Member States have sought to maintain or even strengthen their requirements.

The availability of cross-border funds in Europe is key to the success of European capital markets and retail investors. Cross-border funds provide EU citizens additional investment options beyond those based in their home countries, helping to foster competition and greater investor choice. We urge the European Commission, working with the Council of the European Union, to prioritize the elimination of local requirements imposed on UCITS by certain Member States. The EU should redouble its efforts to reduce cross-border frictions across the EU to benefit retail investors.

Average Ongoing Charges Tend to Be Larger for Cross-Border UCITS Funds

Percent, 2021

■ Cross-border funds¹
■ Single country funds²



¹Cross-border funds are defined as funds registered and available for sale in three or more countries.

²Single-country funds include funds registered and available for sale in one country. Single-country funds also include round-trip funds—funds domiciled in one country but primarily intended for sale in a different country.

Note: Data exclude funds with performance fees because the performance fee cannot be separately excluded from the total expense ratio. Data exclude exchange-traded funds.

Source: Investment Company Institute calculations of Morningstar Direct data. See *ICI Research Perspective*, "[Ongoing Charges for UCITS in the European Union, 2021](#)."

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