Opinion of the European Economic and Social Committee on the Green Paper on the Enhancement of the EU Framework for Investment Funds

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On 12 July 2005 the European Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the *Green paper on the enhancement of the EU framework for investment funds.*

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 21 February 2006. The rapporteur was Mr Grasso.

At its 425th plenary session, held on 15 and 16 March 2006 (meeting of 15 March), the European Economic and Social Committee adopted the following opinion by 138 votes to one with four abstentions.

1. **Introduction**

1.1 The Commission's green paper is an extremely important strategy document in the quest to achieve full integration of EU financial markets. It is well known that the economic development and growth of European countries is closely linked to the development and integration of financial markets, the latter also representing the full achievement of the third phase of European Union.

1.2 Leaving aside the academic debate as to whether financial development precedes or follows economic development, it would seem important to emphasise that with regard to the dualistic, bank- and financial market-oriented approach that characterises the 'Anglo-Saxon' model (and that of the US in particular) as compared to the 'European model', current legislative trends and **the direction of the Union seem to indicate a desire to continue to work towards full integration of the two approaches** in our economic system.

1.3 Financial markets and institutions perform for society the fundamental task of bringing together units that are running a deficit and those that are running a surplus, complying with ground rules based on efficient allocation of resources and rationality. Furthermore, it must be remembered that fair competition — and competition between firms — occurs in capital and credit markets before it does in the material goods market.

2. **The UCITS market in the EU and the need for harmonisation**

2.1 European regulation of managed savings, in general, and of UCITS (Undertakings for Collective Investment in Transferable Securities) in particular, revolves around the core Directive 85/611/EEC, which in recent years has supplied the regulatory framework within which the sector has developed. Although the EU has not yet completely removed the regulatory barriers to cross-border localisation and product marketing, the UCITS market operates in a harmonised regulatory context.

2.2 The UCITS market appears to be growing at an unstoppable pace. In recent years, managed net assets have seen two figure growth. According to figures from the '*European Fund and Asset Management Association, Investment Company Institute, and other Mutual Fund Associations*', from 1996 to 2005 the market that comprises the EU, the Czech Republic, Hungary, Poland, Norway and Switzerland recorded a compound annual rate of 14.5 %, increasing from approximately EUR 1 450 billion to more than EUR 4 900 billion of net assets.

2.3 The publication [1] of the annual figures for the number of funds and total fund capital globally shows that the phenomenon is clearly on the increase both in terms of numbers and volumes managed.

2.4 Whilst it appreciates the difficulties, the EESC believes it is very important to resolve the problem of fiscal convergence in order to increase the growth potential of UCITS. The sector's internationalisation strategies can be influenced by entrance barriers and exit barriers. Exit barriers are created when non-resident fund holders are taxed according to fund host country legislation; entrance barriers are created by the legislation of the fund holder's country of residence.

2.5 In Europe UCITS fiscal discipline appears almost everywhere to be inspired by the principle of neutrality of investment in funds compared to direct investment; **nearly all European countries operate — either formally or substantially — the *no-veil* (fiscal transparency) model, in which investor income is taxed directly**. The transparency model applies the principle of *capital export neutrality* and, where income from funds has not been taxed at source, investors are taxed based on the residence principle.

[1] Source: European Fund and Asset Management Association, Investment Company Institute and other Mutual Fund Associations.

3. **Comments on the *General assessment* section**

3.1 In the European financial industry, UCITS are, on average, less than one third of the size of their US counterparts; as a result fund management does not fully benefit from economies of scale, reducing net returns to end-investors.

3.2 However, although the Commission's key objective is to define a framework for product financing, the EESC feels that **if investors are to benefit, there must be full regulation of the financial system** (i.e. regulation of both products and services).

3.3 The Green Paper highlights the increased operational risk that the outsourcing of certain functions may entail, which may possibly result in conflicts of interest: the EESC feels **this is a valid concern**, **which should be followed up with appropriate legislation**.

3.4 Whenever a process is segmented and delegated to different organisations, the problem is not so much to do with the technical arrangements for making the subdivision than with the balance with which the (new) market that regulates buyer-vendor relations develops. Let us take, by way of example, the financial analysis industry. Under current practice, financial analyses are not bought and sold independently; instead, they are incorporated into other services, usually of an operational nature. Thus, for example, a bonds broker tends to distribute analyses of individual bonds in exchange for operational continuity based on commission levels that also include the cost of the analysis.

3.5 Information (analysis) is thus disseminated according to a market logic that is typical of that for a 'public good': the amount of information needed is provided and the price is the sum of the prices paid by the various buyers; only a few of these buyers, however, actually pay anything. The effect is destabilising, to say the least: analysis is underpaid, thus providing an incentive to make economies of scale when producing analyses, with an inevitable reduction in quality and also an incentive to take advantage of cost benefits deriving from conflicts of interest (see, for example, the British FSA's intervention on 'soft commission' between brokers/dealers and asset managers). The EESC considers that rules must be established to avoid — as far as possible — confusing the price setting mechanisms used in the financial capital risk intermediation industry with those used in the investment risk intermediation/transformation industry.

4. **Responses to the green paper's questions**

4.1 *Question 1: Will the above initiatives bring sufficient legal certainty to the implementation of the Directive?*

A. Eliminate the uncertainty surrounding the recognition of funds during the transition from UCITS I to UCITS III,

B. Simplify the notification procedure for passporting funds,

C. Promote implementation of Commission's Recommendations on the use of derivatives and the simplified prospectus,

D. Clarify the definition of 'assets' which can be acquired by UCITS.

4.1.1 To answer the question it is necessary to **distinguish between 'product' financing and 'service' financing**. The aim of the former is to establish the practical instruments for bringing providers and receivers of financial capital together; the latter aims to identify the instruments that are best suited to the requirements of fund investors or providers, and indicate — where no suitable product exists — what the missing features are.

4.1.2 The conversion of financial systems from a 'bank-centred' to a 'market-centred' approach changes the role of the financial intermediary, who increasingly frequently has to intermediate risk as well as financial capital. Risk intermediation is profitable as long as the intermediary is able to handle the risk at a lower cost then the investor. It is therefore legitimate to wonder whether a legislative system that aims for total reduction of risk is more effective than one intended to provide adequate levels of efficiency for risk intermediation.

4.1.3 It should be borne in mind that even in efficient financial market contexts, the overall risk of an investment would ideally be split into two parts: **'payoff risk' and 'informative risk'**. The former measures the effective volatility of an investment's payoff. The latter measures the difficulty of correctly assessing the payoff risk (due mainly to a lack of information on the part of the economic operator). It must be appreciated that the risk premium calculated by the economic operator derives from both types of risk and that the links between the two types are not characterised by simple addition but by correlations of varying degree.

4.1.4 In light of the above, the EESC would answer in the affirmative, but only insofar as this applies to *product financing*. With regard to service financing there is a need to allow greater freedom in the provision of investment services, for example, by removing the current restrictions on financial promotion, which do not take full account of the principle of *home-country-control*.

4.1.5 There is a clear concern underlying this, i.e., the need to **prevent evasive behaviour** on the part of those aiming to set up promotional networks exploiting the more favourable conditions pertaining in certain EU countries. The EESC believes that this logic is fundamentally flawed: the fact that evasion is possible means that the conditions have not been effectively harmonised.

4.1.6 The EESC therefore feels that *free movement* should be increased within the service financing industry as an incentive towards the standardisation of the application by individual countries of EU directives on investment and transferable securities (including UCITS III).

4.2 *Question 2: Are there additional concerns relating to day-to-day implementation of the Directive which need to be tackled as a priority?*

4.2.1 Regulatory convergence must, however, be accompanied by measures to coordinate the fiscal rules that apply to the sector. Different national systems still coexist in the European market, as they do in all other areas of finance, and these are compounded in some sectors by rules deriving from bilateral agreements to avoid double taxation.

4.2.2 This patchwork of fiscal regulation leads to distortions of competition, **double taxation, and scope for arbitrage**, fraud and tax evasion. In this respect, the national regulatory framework needs to be more efficient, given the growing internationalisation of the market.

4.2.3 Individual Member States possess a formidable promotional and protectionist instrument: taxation. Given that the tax implications of UCITS originating in other EU countries are open to various interpretations, less favourable tax arrangements can be applied, thus creating a kind of entrance barrier. The Committee is aware that tax harmonisation cannot be considered an easily attainable objective in the short term, partly due to the requirement for unanimity in this area. **We would therefore propose that consideration be given to framing an EU taxation system for investment products in terms of both levying and collecting.**

4.3 *Question 3: Would an effective management company passport deliver significant additional economic advantages as opposed to delegation arrangements? Please indicate sources and likely scale of expected benefit.*

4.3.1 The passport and *simplified prospectus* seem suitable measures for overcoming criticisms regarding market fragmentation and barriers to full mobility of capital and market completion **and for beginning to establish sufficient legal certainty;** the EESC also believes it is essential to work towards eliminating the uncertainty surrounding the recognition of funds launched during the transition from UCITS I to UCITS III.

4.4 *Question 4: Would the splitting of responsibility for the supervision of the management company and the fund across jurisdictions give rise to additional operational risks or supervisory concerns? Please describe sources of problem and steps that would have to be taken to manage such risks effectively.*

4.4.1 The EESC realises that within the EU there are two financial models: that of the UK and that of continental Europe, and it will be difficult to converge them in the short term. However, the EESC hopes that the new rules will ensure that **the convergence process can be facilitated by having a single regulator**, since it believes that the introduction of legislative obstacles to prevent institutions from picking and choosing which regulatory system to avail of would only serve to perpetuate the current imbalanced situation.

4.4.2 The EESC is convinced that splitting responsibility for supervision of the fund management company and of the fund between two Member States increases supervisory concerns, and risks reducing operational efficiency. **The Committee therefore recommends that responsibility towards the investor should lie with the fund that is based in the investor's home country, even when the management company is based abroad.**

4.5 *Question 5: Will greater transparency, comparability and attention to investor needs in fund distribution materially enhance the functioning of European investment fund markets and the level of investor protection? Should this be a priority?*

4.5.1 To enhance the functioning of fund markets and the level of investor protection it is not enough to regulate only the product side of financial instruments. The EESC suggests that, if investors are to make informed choices, due attention must be given to their needs in the fund distribution phase, making it more transparent.

4.5.2 Information provided to investors must take some account of the home environment and culture in which the investors are based. The enlargement of the European Union to include countries which up until 15 years ago were not participating in the market economy raises the issue of whether there should a uniform information requirement. The EESC believes that consideration should be given to this, bearing in mind on the one hand, the need for a regulatory framework which is as simple and uniform as possible, and on the other, the different economic and financial cultures that still exist between some Member States.

4.6 *Question 6: Will clarification of 'conduct of business' rules applying to firms which retail funds to investors contribute significantly to this objective? Should other steps (enhanced disclosure) be considered?*

4.6.1 The EESC believes that clarification of 'conduct of business' rules for distributors can only be a good thing. We must not underestimate, however, the problems arising from the day-to-day implementation of the directive, with regard to risk management and fee transparency, which are not always easy to resolve.

4.6.2 Consider, for example, the technical issue of benchmark accounting. This can take on totally different meanings depending on whether the manager is aiming to *beat the benchmark* or *meet the benchmark*; the particular delegation process — where the same technical instruments are used — requires exposure to different levels of risk, assuming that to beat the benchmark it is necessary to allow managers to vary their allocations, thereby assuming additional degrees of risk.

4.6.3 In this context, we would propose the introduction of regulations aimed at bringing greater transparency to the process (rather than the quantity) of portfolio investment rotation: gross performance being equal, high levels of rotation bring higher transaction costs, reducing the net performance for the client. This is a particularly pressing issue, especially if part of the transaction costs are to be borne by the managers themselves.

4.7 *Question 7: Are there particular fund-specific issues that are not covered by ongoing work on detailed implementation of MiFID conduct of business rules?*

4.7.1 The MiFID directive can provide an important regulatory basis, particularly in seeking to attain high transparency standards in the distribution of UCITS.

4.7.2 **The MiFID directive does not, however, lay down transparency rules for the negotiation of bonds**, which can be far from transparent. The EESC therefore feels that the MiFID Directive cannot be seen as the instrument that rounds off the legislative framework governing UCITS by remedying all of its shortcomings.

4.8 *Question 8: Is there a commercial or economic logic (net benefits) for cross-border fund mergers? Could those benefits be largely achieved by rationalisation within national borders?*

4.8.1 European funds are still relatively small-scale: in 2004 the average was USD 195 million, compared to the American average of USD 628 million in the same year. This impacts on the chances of achieving economies of scale, then on returns and, last but not least, on the profitability of the company that manages the fund.

4.8.2 It is widely known that one of the financial effects of the process of economic globalisation is a reduction of the absolute level of risk, which is associated with a readjustment of the levels of systematic (increasing) and specific (decreasing) risk. While admittedly **cross-border mergers can increase economies of scale** they should only be **implemented on a limited basis, in the case of products where such mergers can be a driver of success**, or rather to all sectors of fund management where efficiency is more important than effectiveness. In sectors where effectiveness is lacking, however, no benefit can be derived from agglomeration.

4.9 *Question 9: Could the desired benefits be achieved through pooling?*

4.9.1 Pooling asset management in the case of funds that are very similar in nature clearly leads to economies of scale and is an instrument already used by management companies for improving fund management efficiency. With cross-border pooling, however, investment funds run into the various tax and legislative problems previously discussed. The EESC therefore considers that it cannot be an alternative means of circumventing the legislative and institutional difficulties impeding the consolidation of the investment fund industry.

4.10 *Question 10: Is competition at the level of fund management and/or distribution sufficient to ensure that investors will benefit from greater efficiency?*

4.10.1 The answer to this is *no*, as the US experience has revealed. Investment funds have existed on the American market for the past sixty years: despite the spectacular increase in the number and size of funds available, the costs borne by the funds and by investors have, on the whole, almost doubled [2]. This has resulted in a distinctly unsatisfactory performance when measured against the benchmark: while over the period 1945-1965 the benchmark outperformed funds by an average of 1.7 % annually, in the period 1983-2003 this gap increased, reaching 2.7 % per annum.

4.11 *Question 11: Which are the advantages and disadvantages (supervisory or commercial risks) stemming from the possibility to choose a depositary in another Member State? To what extent does delegation or other arrangements obviate the need for legislative action on these issues?*

4.11.1 The option of choosing a depositary in a different Member State from that in which the fund management company is based could **increase competition among depositaries**, reducing the costs borne by the fund.

(2) Bogle J.C. (2005), 'The Mutual Fund Industry 60 Years Later: For Better or Worse?', *Financial Analysts Journal*, January/February.

4.11.2 This could also mean an increased supervisory risk if there is not sufficient cooperation and convergence between the regulatory authorities.

4.11.3 Though they are considerable, depositary fees are lower than other costs, such as, for example, distribution expenses. The EESC would suggest that the benefits and risks of a legislative initiative in this regard should be weighed up carefully.

4.12 *Question 12: Do you think that on-going industry-driven standardisation will deliver fruit within reasonable time-frames? Is there any need for public sector involvement?*

4.12.1 Standardisation, automation and the computerisation of order-placing and fund liquidation are fundamental prerequisites if distributors are to expand their range of products and increase competition.

4.12.2 This, however, would require significant changes to be made to the rules and standards governing operating and IT procedures, incurring significant costs for operators. It should be remembered that in continental Europe fund management companies and distributors are often part of the same group. In a context such as this there is presumably little incentive for operators to bear the costs involved in increasing competition at the distribution level. It is possible, therefore, that public sector involvement could accelerate this process.

4.13 *Question 13: Does heavy reliance on formal investment limits represent a sustainable approach to delivering high levels of investor protection?*

4.13.1 The effectiveness of strict codes of conduct regarding risk management has always been a matter of intense debate in the world of economics, especially in light of the varying benefits deriving from past experience since the Bretton Woods exchange-rate agreements. This results from the diverse nature of economic risk in relation to time: in the short term, fluctuation in the face of restriction creates risk, while conversely, in the long term, risk is also created where something remains rigid while the system evolves. As a result, introducing rigidity by means of formal limits would be beneficial in the short term, but would create substantial risks in the long term.

4.13.2 A point should also be made in relation to recent studies on the so-called behavioural finance sector: the actions and decisions of individual economic agents tend to be strongly influenced by the level of risk involved. As the level of risk increases, behaviour becomes increasingly reactive and vice versa; consequently, the EESC takes a negative view of any legislation that introduces excessive rigidity and which could have a twofold effect in the long term: the instruments would pose a greater operational risk and economic operators would become less reactive, with an outcome that remains to be established, but it would certainly be negative. **On the other hand, awareness of 'real loss' of capital could be the most effective impetus to its protection**.

4.13.3 This development entails further distortion of the markets: the creation of expectations that if the risk has a favourable outcome, the investor benefits, whereas if it produces negative results, this will be absorbed by the market.

4.14 *Question 14: Do you think that safeguards — at the level of the management company and depositary — are sufficiently robust to address emerging risks in UCITS management and administration? What other measures for maintaining a high level of investor protection would you consider appropriate?*

4.14.1 The EESC would propose intervening in the short term, possibly by means of formal and strict regulations, but only with a view to breaking cartels; if this were to happen the market would become more mature, and thus, would no longer require tight restrictions. Accounting is one area of particular interest: all too often the timeframes set by accounting obligations are completely inconsistent with those pertaining to product financing (too short), so that the accounts show little evidence of the temporal diversification pertaining to certain investments.

4.14.2 In order to enhance investor protection, the EESC suggests considering setting up a **special guarantee fund**, to which fines imposed by the supervisory authorities could also contribute. Clearly, this fund should not cover market risks originating from UCITS investments; it should help to compensate investors who have lost out when intermediaries have not played according to the rules.

4.15 *Question 15: Are there instances resulting in a distortion of investor's choice that call for particular attention from European and/or national policy-makers?*

4.15.1 Investment funds compete against financial products such as **unit-linked policies**, perceived as comparable by investors, despite the fact that they are governed by a very different legal framework.

4.15.2 This can distort investors' choices with negative repercussions on cost and risk levels in the investments concerned. The EESC believes that this problem cannot be addressed with reduced competition or by easing the restrictions and guarantees imposed on investment funds. We would call instead for an upward adjustment of standards so that financial products that are perceived as being a direct alternative to investment funds are subject to regulatory requirements that are comparable to those pertaining to such funds.

4.16 *Question 16: To what extent do problems of regulatory fragmentation give rise to market access problems which might call for a common EU approach to a) private equity funds; b) hedge funds and funds of hedge funds?*

4.16.1 In order to clarify the terms of this question and the issue raised in the previous question it is necessary to preface our response as follows. **The Commission needs to clarify its definition of transferable securities**. Clarification is needed to dispel doubts as to **whether or not this term implies a liquid instrument**. It seems that these two concepts are being used interchangeably, in an attempt to divest the concept of transferable securities of any connotation of being an alternative investment or a UCITS-substitute. We believe that this misunderstanding could have serious consequences, as it could lead to the confusion of two quite different theories regarding financial markets: efficiency and completion.

4.16.2 A financial market is efficient when investment transaction costs can be borne by it; a financial market is complete when it comprises all possible investments.

4.16.3 Private equity and hedge funds must be judged primarily in terms of their effectiveness (capacity to select the best investments) before being considered in terms of efficiency (capacity to achieve economies of scale regarding costs). For this reason, the issue of fund size is less relevant: thus, problems regarding effectiveness (capacity to move quickly on the market without influencing its performance) and the containment of systemic risk (consider the rescue of the LTCM fund in 1998) suggest that it would be preferable not to incentivise excessive expansion in the size of funds.

4.17 *Question 17: Are there particular risks (from an investor protection or a market stability perspective) associated with the activities of either private equity or hedge funds which might warrant particular attention?*

4.17.1 A feature of these investments, in addition to the payoff risk, is their major **informative risk**. It is right to regulate this risk, particularly in order to contain the risk of fraud, but it would be a mistake to try to reduce it excessively. Indeed, if these funds were to become fully transparent, there would be a risk of invalidating manager skills, which in fact underpin the production of returns that are only tenuously linked with the market.

4.17.2 The Committee does not believe that the way forward should consist in a utopian attempt to clarify a complex process, but rather to inform the 'average' investor that alternative investments require highly specialised knowledge, without which expert advice should be sought.

4.18 *Question 18: To what extent could a common private placement regime help to overcome barriers to cross-border offer of alternative investments to qualified investors? Can this clarification of marketing and sales process be implemented independently of flanking measures at the level of fund manager etc.?*

4.18.1 The establishment of a common private placement regime for qualified investors could be a major fillip to the development of private equity funds in the European Union.

4.18.2 Qualified investors must by definition be in possession of the technical skills and assets management ability required to make high risk investments such as in private equity. It must therefore be assumed that they are able to assess the ability and credibility of managers. Moreover, given that private equity funds provide a de facto diversification of risk, there should be no need for any flanking measures that might lead to over-regulation of management company activity.

4.19 *Question 19: Does the current product-based prescriptive UCITS law represent a viable long-term basis for a well-supervised and integrated European investment fund market? Under what conditions, or at what stage, should a move toward principle-driven, risk-based regulation be contemplated?*

4.19.1 There are several examples of the shortcomings inherent in the current approach. For example, ETF (Exchange Traded Funds), which combine the positive features of a fund (considerable diversification) with those of shares (can always be traded on the market). The directive encourages use of this instrument by allowing it — given its UCITS status — to benefit from the passport. On the other hand, it poses restrictions on another UCITS holding it, as it would then be treated as a stock certificate.

4.19.2 In the light of, *inter alia*, alternative investment thinking and given the importance of not focusing solely on product finance but also on services finance, the Committee considers that a move towards principles-based regulation would be welcome. At the same time, it believes that the review of the regulatory framework should be done gradually and attempt to strike the right balance between providing adequate consultation time and completing the review promptly.

5. Future challenges

5.1 As has been shown, **the European UCITS system still appears to be fragmented**, with relatively small businesses compared to the U.S. and apparently still sluggish cross-border collaboration and flows. This is not something that is likely to enable any significant economies of scale or — consequently — cost reductions to be made.

5.2 Furthermore, the excessive concern, also voiced in the green paper ([3]), regarding the definition of assets that can be acquired by UCITS, obliging funds to invest in liquid financial instruments in particular, would prevent participation in non-regulated markets.

5.3 **It would therefore be advisable to consider making private equity operations a possibility**. This would be consistent with the objective of opening SME capital up to risk capital operations and therefore to private equity.

5.4 The European economic system is strongly characterised by **small and medium enterprise, which often appears undercapitalised** because it resorts mostly to banks.

5.5 This undercapitalisation **is often accompanied by excessive indebtedness — especially short-term debt –**with a large amount of commercial debt and credit, linked to the fact that businesses from the same sector of industry are highly interdependent. This is also the consequence of a type of ownership that is typical of family capitalism in that the entrepreneur's assets and the firm's capital are often combined.

5.6 These business problems and the need to achieve more general 'productive system' objectives on a European scale make it essential to find solutions to the financial problems experienced by SMEs. These objectives are threefold, and can be summarised as follows:

— encourage an enterprise culture that can open SME capital up to risk capital from third parties and financial organisations;

— encourage innovation as an instrument of competitiveness in globalised markets;

— provide support for business continuity (and inheritance), understood as a process that must not cause any 'discontinuity' that might compromise the life of the business.

5.7 The Committee hopes that, on the basis of the above considerations, the European legislator will extend his attention to the important field of private equity, while venture capital is still underdeveloped in Europe.

5.8 The Committee believes, moreover, that the current discussion of the regulatory framework for investment funds must also provide the opportunity to **take a closer look at the development of socially responsible finance, which does not sacrifice social development and environmental protection issues to the profit motive**. In 2003 ethical funds accounted for approximately 0.37 % of all assets managed by European UCITS. A comparison with the American market, where in the same period 11.3 % of all assets managed by UCITS belonged to ethical funds, shows that socially responsible finance still has very high growth potential in Europe.

5.9 In order to encourage faster development of socially responsible finance, the Member States might envisage tax incentives involving partial de-taxation of earnings from these investments following a practice — already provided for in some Member States — that allows voluntary contributions to socially useful organisations to be tax deductible. Furthermore, tax concessions should be available to funds profits that are reinvested in socially useful organisations.

5.10 Given the innovative nature of this proposal, the Committee hopes it will be examined in further detail and a feasibility study carried out in the light of current best practice.

5.11 The medium- and long-term challenges are essentially:

— to consider the new products that financial innovation inevitably 'creates', in particular the alternative investments that are increasingly essential for 'financing innovation' for SMEs;

— to overcome, including by means of mergers, the problems posed by European funds being too small, with uncompetitive operating costs; at the same time, to help the information and analysis market 'break through';

— to 'complete' the market, with 'product finance' and 'service finance' being regulated.

5.12 Proper information on risks and related products and manager credibility on transaction amounts and arrangements are all factors which — above and beyond the necessary rules — are able to endow the market with confidence, fairness and behavioural rules. These are crucial factors for market efficiency and for effectiveness in allocating resources.

5.13 Consequently, harmonising tax rules, encouraging mergers, enabling joint management of funds (pooling), encouraging competition in the management and distribution of products and services, abolishing the need for the fund manager and the depositor to belong to the same Member States, avoiding high 'transaction costs' connected with fragmented subscription and reimbursement procedures, will bestow on the market a greater degree of efficiency and effectiveness.

Brussels, 15 March 2006.

The President
of the European Economic and Social Committee
Anne-Marie SIGMUND

([3]) COM(2005) 314 final, p.5, point 4.