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Harmonized Regulatory Standards, International Distribution of Investment

Funds and the Recent Financial Crisis

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Harmonized Regulatory Standards, International Distribution of Investment

Funds and the Recent Financial Crisis

Abstract

In this paper, we consider for the first time the impact of fund regulation on the international distribution of investment funds. We study the 2001 UCITS Directive of the European Union, which was put in place to mitigate fraud and promote investor confidence throughout Europe. We examine the impact of UCITS on international distributions of European investment funds over the 2002–2009 period. We show that the UCITS regulatory structure has significantly facilitated cross-border fund distributions, albeit UCITS has had less success for facilitating distributions among smaller fund promoters. Also, UCITS funds, especially UCITS equity funds, have lost some of their advantage in terms of cross-border distribution during the period of the recent financial crisis. Further, we show there has been a growing interest in UCITS over time outside Europe, notably in Asia.

Keywords: Mutual funds, International distribution, UCITS, European regulation, Law and finance

JEL Classification: G23, G15, G18, K22

"In 2007, the top four industries reporting fraud were insurance, retail and consumer, government/state-owned enterprises, and financial services. Indeed, due to the nature of their business, insurance and financial services have reported consistently high levels of fraud over the last 10 years. The 2009 survey also shows that financial services is the sector that has experienced the largest increase in fraud."

-- PricewaterhouseCoopers, 2009 Global Economic Crime Survey

1. Introduction

The investment fund industry has recently become under strong scrutiny subsequent to various fraud scandals, the most prominent being the Madoff scandal. Investment funds have been criticized for their potential systemic risk implication in the current financial crisis. Regulators have called for more stringent control measures and increased transparency for investment funds, advocating that many of them being insufficiently regulated. Interestingly, UCITS funds, a pan-European structure of mutual funds, have been much less subject to fraud than other forms of investment funds.¹ The UCITS Regulation has been developed with the intention to provide increased investor protection and transparency to investors, while facilitating cross-border distribution of funds within the European Union.

However, regulatory fragmentation has long limited international sales of investment funds to retail investors. In Europe, regulatory fragmentation has given rise to much smaller funds. In 2001, for example, the average investment fund in the U.S. was €910 million, but in Italy, the Netherlands, the UK, Germany and France average fund sizes were €417 million, €389 million, €248 million, and €233 million, respectively, and all other European countries have substantially smaller average fund sizes (Heinemann (2002)). In 2009, the *European Fund and Asset Management Association*² (EFAMA) reported that there are 32,000 funds registered in Europe, four times more than in the U.S., even though the U.S. mutual

¹ See, e.g., "PwC Health Check for UCITS III ManCos" <http://www.pwc.com/lu/en/ucits/ucits-health-check.jhtml>

² <http://www.efama.org/>

fund market is larger. The fragmented mutual fund market structure in Europe gives rise to nontrivial costs. European funds do not capture the benefits of scale economies in fund management that are enjoyed by their larger U.S. counterparts. It is well documented that expense ratios are a significantly declining function of fund size; U.S. fund sizes enable expense ratios to be roughly 50-75% smaller than their European counterparts (SEC, 2000). Further, regulatory fragmentation inhibits competition among promoters at the European level and hence potential costs to investors. While regulators have brought about changes to alleviate such inefficiencies, to date there has been a dearth of academic attention and empirical scrutiny of attempts to mitigate regulatory fragmentation in the international sales of investment funds.

In this paper, we empirically investigate the impact of The Undertakings for Collective Investment in Transferable Securities (UCITS) on international distributions of European investment funds. We empirically examine the scope of distribution of investment funds and the extent to which harmonized regulation improves the efficiency of the European investment fund industry. As a cluster of independent nations and an incompletely unified entity, Europe is an appropriate setting to test the effect of supra-national regulations on the development of infra-national activities. Further, benefits of regulatory changes in Europe potentially extend beyond Europe's borders, notably to Asian and Latin American countries.

The first set of EU rules, UCITS I, was adopted in 1985 to allow open-ended funds that invest in transferable securities to be subject to harmonized regulations throughout Europe. However, Member States created obstacles to UCITS I that limited the ability of a fund to distribute cross-border. UCITS II was an ambitious attempt at curtailing such problems, but too ambitious to secure agreement from Member States and therefore never implemented. In 2001, UCITS III was introduced, which brought about regulatory changes to facilitate cross-border distributions within the European Union. By 2005,

approximately €5 trillion were invested in collective investments throughout Europe, of which approximately 70% were UCITS funds.

UCITS III comprised two directives: a “Management Directive”³ and a “Product Directive”⁴. The Management Directive enabled a simplified and more cost-efficient prospectus that permitted a greater scope of activities for management companies to operate throughout Europe. The Product Directive enabled a wider range of financial instruments and permitted UCITS money funds, derivative funds, index-tracking funds, and funds-of-funds. UCITS III, however, was not without barriers to integration, as highlighted by the changes introduced in the January 2009 UCITS IV Directive approved for implementation in 2011 (Ferguson, 2009). UCITS IV differs from UCITS III by enabling more cost effective notification procedures, key investor information, and introducing frameworks for mergers.

If and how regulation affects international fund notification – i.e., the law matters view – is the focus of our hypotheses and tests. We expect structure of UCITS III caused unlevel international distributions of different types of funds: UCITS III gave rise to a larger scope of distribution for funds that can justify the notification costs.

We empirically test these propositions with a new comprehensive dataset of European investment funds over the period 2002–2009, which specifically covers the UCITS III period. Our results show that UCITS funds are more widely distributed than non-UCITS funds, indicating that the gain from facilitated cross-border distribution offsets regulatory costs imposed by a reduced choice of permissible securities and trading strategies under UCITS regulation. Moreover, top ranked fund promoters have much wider distributions, in support of the view that the regulatory costs of international distributions are not equal for all funds; larger funds can better economize on such costs than their smaller

³ Directive 2001/107/EC of the European Parliament

⁴ Directive 2001/108/EC of the European Parliament and of the Council

counterparts. This result is robust to controlling for the possible endogeneity of the fund promoter's decision to structure the fund as a UCITS. Second, the data indicate strong evidence that funds domiciled in smaller countries are more likely to have a greater number of international distributions. Most of these distributions are attributable to Luxembourg and Ireland, the two most important centers of domiciliation for mutual funds in Europe.

We also show that the recent financial crisis limited the increased cross-border distribution of UCITS funds. Although UCITS funds launched since summer 2007 continue to be more widely distributed internationally than non-UCITS funds, the difference has become smaller. This seems mostly attributable to equity funds.

Overall, we document that despite these regulatory impediments under UCITS III, it nevertheless has become extremely well regarded as a vehicle to distribute funds outside of Europe, due to its superior investor protection. Consequently, in the past few years, several Latin American and Asian countries now allow European UCITS funds to be distributed in their countries. The distributions occur mainly in Chile, Hong Kong, Singapore, and Taiwan. In this paper, we empirically show that much of this trend is attributable to top tier promoters. Interestingly, notifications of UCITS funds in Asian countries are more often done by U.S. promoters that domicile their funds in the European Union relative to European promoters. We observe a similar pattern of notifications of UCITS funds in Latin America.

Our paper is related to a growing body of international evidence that shows regulation is important for fund distribution. Heinemann (2002) discusses the benefits of UCITS III for international fund distribution over that of UCITS I, but does not examine barriers to international notification and/or test for the effect of such barriers. Jayaraman, Khorana, and Nelling (2002) and Ding (2006) document

the benefits of mutual fund mergers, but do it in a U.S. context where international distribution cannot be addressed. Frank et al. (2004) examines disclosure regulation and active fund performance in relation to copycat funds (see also Alexander et al., 2007; Kacperczyk et al., 2008). Romero-Avila (2007) and Cumming et al. (2010) examine the effect of regulatory harmonization on the growth of the banking industry and stock market development in Europe, respectively, but do not examine the mutual fund industry. Froot et al. (2001) and Bergstresser and Poterba (2002) examine portfolio flows of international investors and fund flows. Cumming and Dai (2009) examine the impact of regulation on the flow-performance relation between institutional investors and hedge fund managers, but do not consider mutual funds or retail investors. Khorana and Servaes (1999) examine initiation of mutual funds in the US, indicating that larger promoters (fund families) enjoy economies of scale and scope. Extending this analysis, Khorana, Servaes, and Tufano (2005, 2009) examine the size of and fees in the mutual fund industry around the world (see also Chordia, 1996), but do not examine the effect of UCITS on international distributions. Our analysis complements these studies by showing that regulation plays a pronounced role in understanding the economics of the mutual fund industry around the world. Our paper is the first to examine international distributions of mutual funds, and we do so by examining the timely context of UCITS as it currently spreads around the world.

This paper is organized as follows. Section 2 provides information on the European investment fund market and its regulatory environment. Section 3 summarizes our testable hypotheses. Section 4 describes the data. Summary statistics on the European investment fund industry are provided in Section 5. Multivariate empirical analyses of the scope of international distributions are provided in Section 6. Section 7 provides complementary evidence on UCITS funds notifications outside of Europe. Concluding remarks follow in Section 8.

2. The Regulatory Environment

In this section, we explain the regulatory environment of the European investment fund market. Specifically, we detail the evolution of the UCITS regulation that targets the retail market (although institutional investors also invest significantly in UCITS funds). The purpose behind the UCITS directive was to allow a wider, cross-border distribution of funds in Europe to increase the potential market, but to do so in a setting that provides stronger investor protection and information disclosure requirements. Thus, management companies (promoters) can sell their products on a large scope to retail investors, but they must comply with a certain set of rules that limit the type of instruments they can hold as well as the investment strategies they can follow.

Recognizing the importance of a harmonized market in Europe for investment funds, the European Commission has pushed for regulation that facilitates cross-border distribution of fund products and does not generate high costs. In 1985, the directive 85-611/EEC (UCITS I), which codifies the notion of an European passport for the retail market for mutual funds, is adopted to ease the distribution of open-ended funds (throughout the European Union (formerly the European Economic Community (EEC))). The UCITS legislation is not a single text but a set of EU directives covering specific issues. As many other motivations for EU regulations, UCITS was also thought as a mean to foster competition among promoters at the European level. This competition would lead to a more efficient industry.

A fund, which complies with the conditions stated by UCITS I, can be notified for sale in another country of the EEC quickly after notifying the local financial authority. There is no need to set up a domiciled fund to target a new country in order to reduce the fixed costs associated with the management of a separate fund. As a result, fixed costs are reduced and economies of scale can be achieved. This cost reduction was intended to benefit retail investors in the context of a competitive market.

To benefit from the European passport, the fund has to comply with certain conditions. First, Article 2 gives the list of activities that are outside the scope of the UCITS regulation, e.g., excluding closed-ended funds.

Article 19 defines the asset types that are allowed in the composition of a UCITS fund. It focuses mainly on securities traded in financial markets, but with a strong restriction on derivative instruments. As stated in Article 21, *the Member States may authorize UCITS to employ techniques and instruments relating to transferable securities under the conditions and within the limits which they lay down provided that such techniques and instruments are used for the purpose of efficient portfolio management*. The directive also states a series of investment behaviors, like the 5% limit for a single issuer. This restriction could exclude index tracker funds. Article 36 limits borrowing ability to 10%. These prudential measures constitute the core of the directive in terms of ensuring higher investor protection. As Anderberg and Bolton (2006) indicate, in this prudent spirit, undefined words have been interpreted in a restrictive way. For instance, transferable securities are translated as only listed equities and bonds, while derivatives are limited to situations required for “efficient portfolio management”. The exclusion of money market instruments and cash has cumbersome consequences in terms of day-to-day management.

All these limitations and the fact that the Member States had diverse policies with regard to national requirements limited the widespread use of UCITS I. The need for improvements led to discussions for a UCITS II directive in the early 1990s. The draft of UCITS II, regarded as highly ambitious, could not be adopted due to a lack of consensus. The next step occurred in 1998 with the proposal of two directives: the management directive (2001/107/EC) and the product directive (2001/108/EC). Together, they were known as UCITS III and were adopted in 2001.

The management directive improved the European passport by extending it to the management companies that were not covered by the 85/611/EEC directives. Under point 5 of the management directive *a management company can carry on the services for which they have received authorization throughout the European Union by establishing branches with the freedom to provide those services*. It also expanded the range of authorized activities for the management company in order to allow economies of scale. It allows a certain degree of delegation to another party. This is indeed important to notify cross-border; i.e., outside the country of domicile. Some activities might require a local team but the delegation allows for avoidance of this cost. Another aspect of the management directive is the minimum capital requirement to guarantee the safety of investors. Also, the management directive introduced the simplified prospectus instead of the complete prospectus. The simplified prospectus aims at making the publication of information in the different Member States easier while still giving investors the most relevant information for enabling sound investment decisions.

As for the product directive, it has clarified the definition of transferable securities, which includes equities, bonds and derivatives, as long as they are required for efficient portfolio management.⁵ As explained by O'Neil (2006), with UCITS III, fund managers can choose to implement a sophisticated fund strategy, which allows using certain tools common to the hedge fund industry. It still prohibits short sales but through derivatives sophisticated funds can duplicate the effect of short selling. New types of funds are allowed to apply for the UCITS label, such as money market funds, funds-of-funds or derivative funds. However, derivative funds must meet certain conditions, like investing in liquid derivatives and minimizing counterparty risk. If a fund registers as a tracker fund, then the limit of the exposure to a single issuer is raised to 20%. Overall, the product directive proposes a larger range of

⁵ Also, any other negotiable securities with the right to acquire any such transferable by subscription or exchange, excluding the techniques and instruments referred to in Article 21.

permissible investments. Because this range allows the use of various strategies and products, the range has a direct impact on the scope of products and funds affected by the UCITS regulation. With UCITS III, a larger fraction of the asset management industry can apply for the European passport and therefore be distributed more easily. The UCITS regulation has become attractive for hedge fund managers even if it is still more constrained than some strategies used in the main hedge fund industry.⁶

Since UCITS III, the notification procedures within the European Union have been largely facilitated for UCITS funds. The impact on the number of notifications is expected to increase for two reasons: first, because more types of funds are eligible, and second, because the notification procedure is eased (Marco, 2005). The UCITS regulation represents a harmonization of the rules, and uses high standards in terms of investors' protection.

However, even if a directive is higher in the hierarchy of norms compared to local laws, the Member States have to transcribe the European text into their local regulation. This process allows for interpretation and adaptation of some parts. For example, the simplified prospectus is not clearly defined by the directive. As a result, countries have adopted various definitions of the "simplified" prospectus and in many cases turned them into more complex ones. As stated by a Luxemburg Law firm, *"In practice, the simplified prospectus failed to meet those expectations, as it is often very lengthy, and implemented differently across the EU."*⁷ For the notification procedure that meant producing many different prospectuses, one for each country, rather than one simplified prospectus valid in all countries.

⁶ Barkus and Christian (2009) discuss the potential of UCITS regulation for the hedge fund industry.

⁷ Seen on the following URL in 01/08/2009: <http://investments.lawyers.com/blogs/archives/381-Luxembourg-Investment-Funds-From-UCITS-III-to-UCITS-IV.html>

A *CRA International* (2006) survey on cost savings reveals significant differences across countries in terms of notification procedures and average delays.⁸ According to practitioners quoted in the CRA survey (2006), in France it usually takes one month to register a fund, but it takes close to three months in Italy, the delay can be six months in Germany, but it usually only takes three weeks in Luxemburg. The need to translate the prospectus is a cost that prevents notifications outside Europe but might explain the regional clustering of notifications. As for non-UCITS funds, they are regulated by local law. Luxemburg and Ireland prove to be highly efficient in that matter. For example, a Qualified Investor Fund (a non-UCITS structure) in Ireland can be established within six weeks and benefit from a very attractive tax-regime for the funds as well as for investors. Moreover it can conduct short selling and use leverage without restriction.

Nevertheless, UCITS III does not solve all the issues and the adoption of UCITS IV (scheduled for 2011) is an attempt to overcome some of them. A major point that is not contained in the UCITS III regulation is the possibility of cross-border mergers of funds. To really allow a restructuring at the European level of funds, and to reach a critical size in order to make economies of scale, the regulation of cross-border mergers need to be eased. But since the merger is made possible by the fact that one fund acquires the assets of another fund, the UCITS funds need to be allowed to buy “units” from a fund domiciled outside its home country. The upcoming UCIT IV addresses the issue of restructuring by making the cross-border merger easier and also by introducing the master-feeder structure to the scope of eligible UCITS funds (Anderberg and Brescia, 2009).

⁸ CRA International (2006), *Potential Cost Savings in a Fully Integrated European Investment Fund Market*, research report for the European Commission

Despite these limitations, UCITS III has allowed the UCITS label to become a standard that goes beyond the boundaries of the European Union. In Asia it is regarded as a quality standard as an EFAMA survey shows⁹ and as the Hong Kong Investment Fund Association indicates on its website.¹⁰

3. Testable Hypotheses

In this section, we summarize 3 testable hypotheses that UCITS III has given rise to unequal international distributions of investment funds; that is, the scope of distribution depends on fund structure. First, UCITS funds have greater potential for reaching a broader scope of distribution as a result of the facilitated notification procedures that the UCITS III directive has enabled since 2001. UCITS III simplified the prospectus requirements for funds, which lowers costs and increases the scope of activities for management companies to operate throughout the European Union. UCITS III also enables a wider range of financial instruments than UCITS I by permitting UCITS money funds, derivative funds, index-tracking funds, and funds-of-funds. Still, this range is more restrictive than many other national fund structures that may allow strategies that make investor protection enforcement more problematic and risk of fraud more likely. We expect a greater scope of distribution for UCITS funds as compared to non-UCITS funds, which do not face the same simplified notification procedures. Further, we expect the benefits of UCITS regulation to be pronounced for countries with weaker legal standards, such as in Asia as well as in emerging markets.

Hypothesis 1 (UCITS): *UCITS funds are more likely to have a larger scope of distribution.*

Second, although UCITS III provides an opportunity to increase the scope of distribution it also bears some costs, because UCITS funds must comply with a set of regulations that limit the range of

⁹ UCITS: as a global brand, an industry survey by EFAMA, available on <http://efama.org>

¹⁰ Seen on the following URL in 01/08/2009: http://www.hkifa.com.hk/eng/download/UCITSIII_FAQ.pdf

products and investment strategies available (Zetzsche, 2008). With respect to the sophistication of investors, non-UCITS funds can at times benefit from more flexible regulation (or lack of regulation). This structure implies that there is the existence of cost barriers to internationalization for funds, even UCITS funds, and these costs will be relatively more discouraging to funds managed by smaller promoters. This is likely to be the case for UCITS as well as non-UCITS funds. Top promoters can have better access to distribution channels internationally, enabling them to achieve a larger distribution scope at lower costs.

Hypothesis 2 (Top Promoters): Funds of top tier promoters will have more notifications and more cross-border fund distributions.

However, given the lower costs of cross-border notifications for UCITS funds, the effect is likely to be stronger for UCITS funds than non-UCITS funds. Therefore, we test Hypothesis 2 separately for both UCITS and non-UCITS funds.

Third, an important determinant of whether a fund will be distributed cross-border and thus notified in more countries is the size of the country of domiciliation itself. In line with the macroeconomic findings provided by Khorana, Servaes, and Tufano (2005), we expect funds domiciled in smaller countries to more often seek cross-border distribution as a way to achieve their critical fund size. If the costs of international notification are zero or trivially small, then there will be no systematic difference in notifications with respect to country size. But where there are nontrivial costs of notification, funds in smaller countries are more likely to bear higher costs of notification.

Hypothesis 3 (Size of Country of Domicile): Funds domiciled in smaller countries are more likely to seek international notification and thereby more notifications.

These three hypotheses are empirically examined for the first time with a comprehensive dataset of European funds that is introduced in the next section.

4. Data

Our analysis builds on data provided by LIPPER. The full sample includes all the investment funds launched from 2002 onwards domiciled in Austria, Belgium, Czech Republic, Denmark, France, Germany, Finland, Ireland, Italy, Latvia, Luxembourg, the Netherlands, Norway, Poland, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom. These are the EU countries covered in the database and definitely are the most important countries of domiciliation in Europe. The full sample includes UCITS as well as non-UCITS funds. To avoid a sample selection bias, we also include funds that have been merged or liquidated already. However, we intentionally exclude funds launched prior to 2002, because of the major changes in regulation that occurred in 2001. Our sample was extracted in September 2009.

The database includes, among other things, information on year of launch, year of closure (if inactive at the meantime), country of domiciliation, the list of countries where the fund has been notified, Net Asset Value (NAV) for funds that remain active (as of August 31, 2009, except for a very few), fund type, geographical focus of investment, and several other key aspects. It is important to note that this database gives us a picture of the situation as of August 31, 2009. All the variables are defined in Table 1.

-- Table 1 About Here --

Throughout the report we distinguish between funds launched by the largest promoters and those launched by smaller promoters. To build the list of the largest promoters, we build a league table with our complete sample of funds, ranked by total number of funds launched. This approach of building league tables is supported by studies done in other areas such as the effect of reputation on IPOs and bond underwriting (see, e.g., Fang, 2005). Based on this league table, we define the top-50 promoters as

being the “largest” and “most reputable” ones. In the analysis, these are defined by the dummy variable *Top-50 Promoter*.

5. Summary Statistics

In this section, we provide an overview of the investment fund industry in Europe, with special focus on notifications. As a starting point, it is useful to provide more statistics on notifications of investment funds. These statistics give an overview of the full sample we use and how the scope of distribution has evolved over time. Table 2 presents a set of summary statistics for the full sample as well as for the differences between UCITS versus non-UCITS funds and national (i.e., funds with a single notification only, namely in the country of domicile) versus cross-border (i.e., funds with at least two notifications) funds. The total number of investment funds included in our sample is 22,634, of which 58.9% are UCITS funds. Since 2002, 76.7% of all the funds are still actively managed, while 16.4% have been liquidated and 6.9% have merged.

-- Table 2 About Here --

In terms of domiciliation, Germany and Italy have very few funds domiciled in their country although they have relatively large markets (e.g. compared to Switzerland, which has roughly the same number of funds although the country is significantly smaller). This level contrasts strongly with France and Spain, which have a significantly larger fraction of funds domiciled in their countries. Although funds domiciled in France are largely non-UCITS funds, 1.33 non-UCITS funds for every UCITS fund, the opposite is observed in Spain, 0.03 non-UCITS funds for every UCITS fund. This pattern also impacts decisions on the countries of notifications, because only in France is the number of notifications larger for non-UCITS funds than UCITS funds (25.3% of all the non-UCITS funds, 13.3% of all the UCITS funds).

Overall, these statistics reflect the type of funds predominantly domiciled in the respective countries, because notifications are made more easily with UCITS funds.

An important reason for Spain to have so many UCITS funds is that it has regulation that largely builds on the UCITS regulation. The Spanish market only witnessed strong development in recent years after UCITS III was introduced. As such, Spanish regulators largely implemented European UCITS III regulations at the national Spanish level. Ninety-eight percent of Spanish-domiciled funds are UCITS-compliant, and nowhere else notified; 100% of Spanish-domiciled funds are national funds.

As for France, funds domiciling there can select among a broader range of vehicles. Because many funds are in fact intended for the domestic market, it is not surprising that fewer are UCITS-compliant, given the choice of possible vehicles.¹¹

In terms of comparison, UCITS funds versus non-UCITS funds, we observe that equity and bond funds are more often UCITS funds, but mixed assets and money market funds are more often structured as non-UCITS funds. This is likely to be substantially driven by regulation that defines the set of permissible assets. Interestingly, funds from the top-50 promoters are proportionately as much UCITS funds (55.83%) as non-UCITS funds (57.06%). Note however that these are unbalanced data; i.e., not weighted on asset value but in absolute number of funds launched. This distribution changes the perspective as UCITS funds are substantially larger, as measured by NAV, than non-UCITS funds.

Most UCITS funds are domiciled in Luxembourg (39.5%), again measured in number of funds. Other studies traditionally report values weighted on asset value, in which case the dominant position of Luxembourg appears even stronger, because funds domiciled in Luxembourg have an above average

¹¹ Funds domiciled in France have only 1.19 notifications on average, among which one of course is France. While being 100% notified in France (where they are also domiciled), only 4.1% are notified in Germany (the next largest country by importance of notification). For French-domiciled UCITS funds, only 9.1% are notified in Germany.

NAV.¹² A CRA report (CRA International, 2006) prepared for the European Commission about the motives for domiciliation choices offers interesting insights about possible reasons for choosing one country over another.¹³ The report points out some drivers that seem to favor Luxembourg: its easier authorization process, tax treatment, overall regulation, and documentation obligation. Moreover, Luxembourg appears to have a more flexible regulator trying to meet the needs of the industry (the Commission de Surveillance du Secteur Financier, CSSF), long experience in the field of fund regulation, and a more neutral ground for selling financial products abroad.

The last two columns in Table 2 relate to the geographical scope of fund distribution. As expected, UCITS funds are more often cross-border funds (i.e., funds notified in at least two countries), given the regulatory benefits attached to UCITS funds in terms of notification procedure (Hypothesis 1). More interestingly, overall there are far more national funds than cross-border funds domiciled in Europe (14,364 as opposed to 8,033). National funds appear generally to be liquidated or merged more often than UCITS funds, although the differences are not that substantial at first sight in Table 2. Cross-border funds are proportionately more often equity and bond funds, while national funds are more often mixed asset and money market funds.

Thus, most cross-border funds are UCITS funds. This again is in line with the benefits of UCITS funds, which allow for easier notification across the European Union through simplified documentation. Moreover, bond and equity funds are more often cross-border funds, usually as a result of being UCITS funds. Funds initiated by top-50 promoters are more often present among cross-border funds than

¹² We rely on the absolute number of funds because we also include merged and liquidated funds for which the NAV is only available until the date of de-registration of the fund. However, these cannot be used here because changing market conditions have significantly affected asset values over the time period considered.

¹³ CRA International (2006), *Potential Cost Savings in a Fully Integrated European Investment Fund Market*, research report for the European Commission.

national funds in relative terms (62.07% versus 53.67%, respectively). Most of these findings are shown in our correlation matrix presented in Table 3.

-- Table 3 and Figure 1 (Panel A-C) About Here --

Figure 1 shows the proportion of investment funds over time that are UCITS funds. Although, the proportion of UCITS funds appears to be relatively stable over time (Panel A), a slight trend seems noticeable towards more UCITS funds for national funds (Panel B). For instance, almost 75% of all new “national” funds created in 2008 and 2009 were UCITS funds, although this fraction was below 60% before 2005. In contrast, this fraction seems quite stable for true cross-border funds, with the exception of 2009.

-- Figure 2 About Here --

Figure 2 shows the number of funds newly launched, by year, from 2002 onwards (recall that 2009 is only partial and therefore difficult to compare with previous years). The top panels are for UCITS funds and the three others for non-UCITS funds. In each case, we provide the number of new funds overall, for the top-50 promoters only, and for all other promoters.

Overall, the number of newly domiciled UCITS funds increases over time until 2006, then decreases slightly in 2007 and sharply in 2008. This is clearly the result of changed market prospects. The distinction between the top-50 promoters and other promoters is interesting. Both seem to have behaved similarly, as both reached their peak in 2007. However, the increase from 2006 to 2007 seems weaker for the top tier promoters. This raises the question of whether the top-50 promoters are better at reacting to changes in market conditions and whether the sharp increase in other promoters is largely driven by existing promoters or newcomers that entered the market late. Interestingly, this pattern can also be found for non-UCITS funds, as shown in the three lower panels of Figure 2. While the overall

pattern over time appears to be different from UCITS funds (i.e., when comparing the two left-hand side panels), where the creation of new funds gradually decreases until 2003 and then again increases until 2007, the last increase in 2007 seems attributable to smaller promoters as well as top tier promoters.

One major difficulty in this analysis is that details on notifications are only provided by LIPPER. There is no history available. This limitation implies that we cannot assess the number of notifications of each fund after, say, two years of the launch. We only know the notifications they make initially. This limits the possibility of examining the dynamics in the event of changing market conditions and regulatory changes.

-- Figure 3 (Panel A-B) About Here --

Figure 3 compares the average number of notifications of UCITS funds with non-UCITS funds by the year of launching (vintage year). It shows a decreasing number of notifications over time for UCITS funds, indicating that “older” UCITS funds tend to have requested more notifications than more recent UCITS funds.¹⁴ What might explain this trend? Various reasons can be at play. The first possibility is that this is simply due to a time effect; i.e., the fact that funds first notify in a few countries and then notify elsewhere only later to achieve their desired scope of distribution. This time effect generates a declining pattern as shown here, and might capture the differences observed for the most recent years (the only way to control for this is by having historical data). This pattern might explain why fund managers start a new fund under UCITS regulation. Registering a fund under the UCITS regulation indeed provides a “growth option” for expansion to other countries, which might be valuable even for funds that are initially intended for only a single market. In contrast, for non-UCITS funds this option is less valuable due to the more restrictive regulation for cross-border distribution to retail investors.

¹⁴ For non-UCITS funds, the trend slightly increases until 2007, although very marginally.

However, the time effect is unlikely to be the only reason for a decreasing number of UCITS notifications over time. Indeed, even if it takes about two years to achieve all desired notifications, the observed negative trend spans a longer time period than two years. Moreover, it is very possible that a select number of funds are growing geographically over time substantially more than the average fund, creating a disparity between high-growth and low-growth funds. This effect would be hardly noticeable here without a more detailed analysis.

This finding still raises the question of why there is this decreasing pattern. Is this indicating a trend towards country-tailored funds in recent years? Or increased geographical specialization of distribution channels as a result of new business models in the investment fund industry? Alternatively, to which extent is this finding driven by the increasing use of UCITS structure for national funds as in Spain? Although we cannot offer a clear answer to these questions, a country-by-country analysis reveals some trends. While UCITS funds domiciled in Spain and Italy generally have a single notification throughout the sample period, French and German domiciled UCITS funds keep a stable average between 1.5 and 2 (a slightly decreasing trend), and, more surprisingly, Ireland has no clear pattern. Indeed, UCITS funds domiciled in Ireland have on average 4 to 5 notifications through the period 2003–2007, implying a larger variation over time than most other countries (further details not reported herein are available on request). The multivariate analyses in the next sections account for the dynamic pattern of notifications.

6. Multivariate Analysis on the Scope of Fund Distribution

In this section, we present our results from the multivariate analysis. In order to assess robustness, we measure the scope of fund distribution in different ways: the number of notifications (the variable *Nbr. Notifications*), whether a fund is distributed outside the country of domiciliation (the

dummy variable *Cross-Border*), and finally, we weight the notifications of funds by the population of the countries, scaled by the total population of the Euro Zone (the variable *Population*). Because results for all the three measures are very similar qualitatively, in Subsection 6.1 we discuss results in terms of our first measure, and only report differences with respect to the two other measures at the end. However, we report results for all the three measures (Tables 4 – 7). Results of the tests of Hypothesis 2 will be discussed. In Subsection 6.2 we then test our Hypothesis 3. Subsection 6.3 investigates the impact of the recent financial crisis on the international fund distribution, in particular for UCITS funds. Subsection 6.4 reports several robustness checks performed.

6.1. Determinants of the Scope of Fund Distribution

Results on the number of notifications (*Nbr. Notifications*) are shown in Table 4, the propensity of funds to be distributed cross-border (*Cross-Border (dummy)*) is in Table 5, and the population covered by notifications (*Population*) is in Table 6.

-- Tables 4 - 6 About Here --

Several key results are observed in Table 4. First, we find more notifications for funds of large promoters (*Top-50 Promoter dummy*), in support of Hypothesis 2. This result is strong and consistent across all specifications shown and all the three measures used. This result supports the concept that larger promoters have better access to distributions channels abroad, notably due to their cross-border presence in connection with other financial products and services offered. Indeed, most of these promoters offer several other services and financial products, since they are usually commercial banks such as Crédit Agricole (#1 in the 2009 ranking), Fortis Group (#3 in the 2009 ranking) BNP Paribas (#6 in the 2009 ranking), and UBS (#11 in the 2009 ranking).

Next, the dynamic pattern of notifications is concave in that fewer new countries are notified over time. This finding can be seen through the positive coefficient of *Fund Age* and the negative coefficient of the squared term of *Fund Age*. This result supports the view that promoters quickly notify to achieve their desired level of distribution. This result also illustrates the quick procedure of notifications.

Interestingly, although they primarily serve as control variables, we find a pattern for funds that have merged or been liquidated at the same time. There seems to be a pecking order in that liquidated funds achieve a smaller scope of distribution, but merged ones only slightly more. We note that UCITS III did not have effective procedures to enable mergers. The negative coefficient for mergers is also consistent with the ineffective merger provisions.

In terms of fund types, results are consistent with function in that equity and bond funds tend to be more standardized products that are more easily distributed widely, but other fund types are often designed for institutional investors (regardless of whether under the UCITS regulation) or tailored funds for country-specific demands.

According to Hypothesis 1, UCITS funds have more notifications, largely due to the lower requirements for registering abroad within the European Union. Given our specific focus on the UCITS Directive, we further investigate the subsample of active UCITS funds only in Regressions (3), (5), and (6). Moreover, results for the non-UCITS funds are provided in Regression (4). There, we find mixed evidence for Hypothesis 2, which suggests that the non-UCITS market has its own market structure. Combined with results obtained in previous regressions (where the coefficients for *Top-50 Promoters* are larger), this finding suggests non-UCITS funds may be more often launched by local, smaller promoters that have better access to cross-border distribution channels. Also, the number of

notifications does not increase as the fund matures (the variables *Fund Age* and *Fund Age squared*). It confirms the observation made earlier that UCITS funds are more prone to be widely distributed than non-UCITS funds. For the sample of merged (Regression (5)) and liquidated Regression (6)) funds, we find that merged funds have a larger scope of distribution than liquidated funds, and supports the ordering discussed above in terms of possible performance. Though, even in these funds, the largest promoters realized a larger scope of distribution than other fund promoters.

Several robustness checks were done. First, our results are robust to the inclusion of year dummies, although they are not directly included in the tables due to colinearity problems with the base rate variables 1-Year Euribor. Second, we included the following regional dummies on top of the country dummies: Scandinavian (Finland, Norway, Sweden and Denmark), German-speaking (Germany and Austria), French-speaking (France, Belgium and Luxembourg), Eastern Europe (Slovenia, Slovakia, Poland, Czech Republic and Latvia) and Other. These may capture differences in economic development as well as geographic clusters of local branches that promoters may own (and thus their ultimate access to local distribution channels). We continue to find support for our results after inclusion of these regional dummies. Finally, we constructed a dummy variable for the top 25 promoters as alternative cut-off level for promoter reputation. Our results are robust to this alternative cut-off level.

6.2. The Effect of the Size of the Country of Domicile

Hypothesis 3 links the scope of distribution to the size of the country of domiciliation. It is expected that funds domiciled in “smaller” countries face a greater need for distributing their products outside their home country in order to achieve a critical size to make the fund viable. Given the costs of UCITS international distributions, we expected (Hypothesis 3 and accompanying text) a negative impact

of country size on the scope of cross-border distribution. Given our findings in Subsection 6.1, we test this hypothesis on the subsample of active UCITS funds.

Tests of Hypothesis 3 are provided in Table 7. We obtain very similar results for the three measures *Nbr. Notifications*, *Cross-Border (dummy)*, and *Population*. We find that funds domiciled in larger countries have fewer notifications (Regression (1)) and thus are also less often distributed cross-border (Regression (4)). However this finding is largely attributable to the two countries that attract the most funds for domiciliation, namely Luxembourg and Ireland. Indeed, the result becomes non-significant when adding dummy variables for these two countries in Regression (2). The effect of *Population of Domicile* then becomes positive.

-- Table 7 About Here --

6.3. The Impact of the Recent Financial Crisis on the International Distribution of UCITS Funds

An interesting question, in particular with respect to fraud and financial scandals, is the impact of the recent financial crisis on cross-border distribution differences between UCITS funds non-UCITS funds. Although it is most likely premature to draw final conclusions on the question due to the short period of analysis (our sample stops in September 2009), it is worthwhile to take a first look at it. To do this, we construct the variable *CRISIS*, a dummy variable equal to one for funds that have been launched since summer 2007 (the beginning of the financial crisis), and zero for funds launched prior to the starting point of financial crisis. We then include in our specifications the variable *CRISIS* as well as an interactive term *UCTIS (dummy) * CRISIS*. The latter captures the specific effect of UCITS during the crisis period. Results are shown in Table 8 for the three different measures of international distribution. Regressions (1) – (3) are for the full sample, Regressions (4) – (6) for equity funds only, and Regressions (7) – (9) for bond funds. Interestingly, UCITS funds have lost some of their advantages in terms of

international distribution during the crisis period, at least in terms of number of countries where the UCITS funds were notified. This did however not translate into a reduction of population size, indicating that the effect was more likely to have adversely affected smaller countries. Indeed, unreported results indicate that much of the negative impact on UCITS funds is attributable to Luxembourg as country of domiciliation, where the impact was the largest among the main countries of domiciliation.

Perhaps unsurprisingly, the negative impact is largely found for equity funds, where risk for investors was highest during the crisis and investors were looking for safer investment opportunities. This might also explain why UCITS bond funds were not adversely affected in terms of international distribution.

-- Table 8 About Here --

6.3. Endogeneity Robustness Checks

One possible concern is the decision of fund promoters to structure a fund as UCITS may itself be driven by the fund objectives in terms of distribution scope (see, e.g., Nanda et al., 2000, for related work). This would make the UCITS dummy variable endogenous. To examine whether this may affect our results, we use two sets of instrumental variables: (1) a dummy that is equal to one if the fund is domiciled in the originating country of the promoter, making it more likely that the fund could be primarily intended for domestic distribution where other fund structures are available; and (2) a broad range of strategy types dummy variables such as absolute return fund, ethical fund, contrarian fund, index tracking fund, and leveraged fund (in total 26 types). These are likely to affect the choice of whether to structure a fund as a UCITS, since UCITS regulation pins down what type of strategies are permitted under UCITS regulation, and which ones not (for instance, the use of derivatives is specifically

regulated). When performing these extended regressions, the results reported in this section remain largely unaffected; however the sample size is reduced. The findings are largely consistent, and the results are available on request.

An alternative way to control for endogeneity of choosing the UCITS structure is to perform the analysis on the subsample of funds that are cross-border, i.e., only funds that are notified in at least two countries. While this does not allow using the variable *Cross-Border (dummy)* as dependent variable, examining robustness on the two other variables remains possible. Again, our results continue to hold in this subsample, and they are available on request.

7. Notifications made outside Europe

In this section, we complement our analysis of the scope of distribution in Europe provided above by examining where UCITS funds are notified outside the European Union. We focus on two different world regions: the Americas (North, Central, and South America combined) and Asia-Pacific.

-- Table 9 About Here --

Table 9 shows the percentage of UCITS funds for different countries. We restrict our sample to funds launched after 2001 and that are still active today.

In the Asia-Pacific region, UCITS funds are most often notified in Hong Kong (5.33% of all funds in our sample) and Singapore (8.89%). These countries are also the most prominent financial centers in Asia. It should be noted that these percentages are quite remarkable, because they are based on our full sample. In a separate analysis, we report that most of the funds notified there are from U.S. promoters, especially the largest promoters that have a truly international reach. Other countries where funds are

often notified are Macau (2.32% of all considered funds), Taiwan (3.11%) and South Korea (1.11%). In all other countries, UCITS funds are virtually absent.

Interestingly, Hong Kong and Singapore have been particularly keen in facilitating the distribution of UCITS funds in their domestic market. The Monetary Authority of Singapore has allowed it since 2003, when the UCITS I regulation was still in place. When UCITS III was introduced, it continued to do so. Managers of UCITS funds currently have to comply with simple disclosure rules.¹⁵ Similarly, the Securities and Futures Commission of Hong Kong facilitates the notification of UCITS funds to be distributed in Hong Kong.

However, some authorities outside the EU can impose additional restrictions on investments. As pointed out by Anderberg,¹⁶ *“local regulators have the authority to impose additional restrictions on the way a UCITS is managed. In certain jurisdictions, there are a number of substantive limitations on a fund’s ability to manage various kinds of assets. For example, Taiwan used to require (until a recent easing of these regulations) that a fund registered in Taiwan could invest no more than 0.4% of its assets in Mainland Chinese securities, and no more than 10% of its assets in China-related securities traded in Hong Kong or Macau. It was necessary to consider that by registering in Taiwan, a fund’s portfolio managers might be restricted in the future from investing in Chinese securities.”*¹⁷

We find a sharp contrast with the Americas, where UCITS funds are largely absent. This is true even in very large countries such as the United States, Brazil, and Mexico. Much of it is attributable to

¹⁵

Source:

http://www.mas.gov.sg/news_room/press_releases/2005/MAS_facilitates_the_offer_of_UCITS_III_funds_in_Sg.html (viewed on June 18, 2009)

¹⁶ Anderberg, K.L., 2009. “UCITS and the cross-border registration process” <http://www.practicallaw.com/2-384-8117> (viewed on May 18, 2010)

¹⁷ Source: <http://www.dechert.com/library/Anderberg.pdf>; published in “PLC Cross-border Investment Funds Handbook 2009”.

differences in regulations that make the notification of UCITS funds particularly difficult, similar to what has been presented above for some Asian countries, only to a more severe extent. The only countries where UCITS funds are often notified are Chile and to a lesser extent Peru.

-- Table 10 (Panel A-B) About Here --

An interesting question is where these funds are primarily domiciled and whether these are largely funds of more established promoters. Given the few notifications in the Americas, we pursue the discussion only for the countries in Asia-Pacific. And there, we limit the analysis to the countries where at least 1% of our funds are notified (these are the ones in bold in Table 9). Summary statistics are provided in Table 10, Panels A and B.

Most funds notified in Asia-Pacific are domiciled in Luxembourg and partially in Ireland, but rarely elsewhere. Most of these UCITS funds are from top-50 promoters, in some countries up to 70% of the notified identified funds. Most of them are equity and bond funds. Compared to the countries of the European Union, equity funds are over-represented as well as bond funds. This is largely due to the fact that there are proportionately fewer “other fund” types in Asia-Pacific that are UCITS funds.

These general findings raise the question of which promoters are more likely to expand their scope of UCITS distribution beyond Europe, and in particular in Asia-Pacific and Latin America. In Table 11, we provide a multivariate analysis of this question by examining separately the decision to notify outside Europe (Regressions (1) and (2)), in Asia-Pacific (Regressions (3) and (4)) and the Americas (Regressions (5) and (6)). Similar to our analysis in Section 6, we find that top-50 promoters are more likely to expand in these regions, and that the effect is concave in fund age. Furthermore, most of these funds turn out to be domiciled in Ireland and Luxembourg, which confirms our preliminary findings from Table 10.

Also, we find that notifications of UCITS funds in Asia-Pacific countries are mostly done by U.S. promoters that domicile their funds in the European Union, as compared to European promoters. A similar pattern can be found in the Americas (essentially Latin America), although it is somewhat weaker.

8. Concluding Remarks and Future Research

In this paper, we examine the scope of international fund distributions with UCITS over the 2002 – 2009 period with a comprehensive data set of European investment funds. Consistent with limitations to the UCITS III regulations that enhances investor protection and mitigates risks of fraud, we find strong evidence that UCITS III promoted international distributions for larger funds. Further, the nontrivial costs of international notification under UCITS III imply that smaller countries have disproportionately more interest in international notification.

The data indicate a number of additional interesting aspects of international notifications under UCITS. For instance, the data indicate that the international scope of notifications is concave in that fewer new countries are notified over time. Further, we document evidence that there has been an increase in the number of fund promoters that distribute UCITS funds outside the European Union, notably in Asia. This trend can be attributable to the superior investor protection of UCITS regulation. Overall, we find that the UCITS regulation has had a significant impact in the distribution scope of funds through cost savings and larger population targeting.

These findings raise new questions. One is whether there are patterns to notifications, like clustering of countries. For instance, do fund promoters systematically notify their funds in all Scandinavian countries, or are notifications made in Finland, Sweden and Norway unrelated to each other? The same may apply to German-speaking countries and the Benelux region. Similarly, some fund

promoters have set up so-called *round trip* funds that are domiciled abroad (typically in Luxembourg or Ireland) and notified also in the home country. In particular, German promoters have used this structure, by domiciling their fund in Luxembourg and also notifying it in Germany. This pattern implies cross-border funds with two notifications (one in Luxembourg – the country of domiciliation – and Germany). What drives certain promoters to choose this structure as opposed to simply setting up a national fund (i.e., domiciled in the home country and notified nowhere else) remains an open but interesting question for future research.

The upcoming UCITS IV Directive intends to enlarge the scope of distribution of investment funds distributed in Europe. Three distinct measures are included in the new directive to achieve this goal: the introduction of a management passport, the harmonization of the merger regulation for cross-border mergers, and the introduction of a master-feeder structure. How will these new measures effect notification decisions and the ultimate scope of distribution?

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TABLE 1: Definition of Variables

Nbr. Notifications	Number of countries in which the fund is notified as of September 2009
Cross-Border (dummy)	Dummy variable equal to one if the fund is notified outside its country of domiciliation, and zero otherwise
Population	Level of population implied by the achieved notifications by the fund as percentage of the Euro-zone population
Current Status: Active (dummy)	Dummy variable equal to one if the fund is currently still active, and zero otherwise
Current Status: Merged (dummy)	Dummy variable equal to one if the fund has merged, and zero otherwise
Current Status: Liquidated (dummy)	Dummy variable equal to one if the fund has been liquidated, and zero otherwise
Fund Age (in years since launch)	Age of the fund (in years) as of September 2009, calculated since year of launch (vintage year)
Top-50 Promoter (dummy)	Dummy variable equal to one if the fund is from one of the 50 largest fund promoters (based on number of funds launched in the European Union), and zero otherwise
Promoter Size	Number of investment funds that the promoter has launched (based on the complete LIPPER database) until September 2009; the variable is an alternative measure of promoter reputation
UCITS Fund (dummy)	Dummy variable equal to one if the fund is a UCITS fund, and zero otherwise
Equity Fund (dummy)	Dummy variable equal to one if the fund is an equity fund, and zero otherwise
Bond Fund (dummy)	Dummy variable equal to one if the fund is a bond fund, and zero otherwise
Mixed Fund (dummy)	Dummy variable equal to one if the fund is a mixed fund, and zero otherwise
Money Market Fund (dummy)	Dummy variable equal to one if the fund is a money market fund, and zero otherwise
Other Fund (dummy)	Dummy variable equal to one if the fund is any other type of fund, and zero otherwise
Domiciliation Dummies	Dummy variables for the different countries of domiciliation; i.e., Austria, Belgium, Czech Republic, Denmark, France, Germany, Finland, Ireland, Italy, Latvia, Luxembourg, the Netherlands, Norway, Poland, Slovakia, Slovenia, Spain, Sweden, Switzerland and the United Kingdom
Population of Domicile	Level of population in 2007 of the country where the fund is domiciled as percentage of the Euro-zone population (Source: World Bank database)
Promoter is a Commercial Bank	Dummy variable equal to one if the parent promoter is a commercial bank, and zero otherwise (e.g., an investment company or an insurance company)
Swiss Promoter	Dummy variable equal to one if the parent promoter is located in Switzerland
Non-European Promoter	Dummy variable equal to one if the parent promoter is located outside Europe
GDP Growth Rate at Launch Year	GDP growth rate in the country of domiciliation of the fund at year of launch (Data Source: World Bank)
Euribor Rate at Launch Year	1-year Euribor rate at year of fund launch

TABLE 2: Summary Statistics

All the variables are defined in Table 1. For the last three variables (Promoter is a Commercial Bank, Swiss Promoter, and Non-European Promoter), we only have the information for the 100 largest promoters and thus the number of observations is 14784 for full sample (out of the 22634 obs.). The first two columns give summary statistics (mean and standard deviation) for the full sample, the third column means for UCITS funds only (i.e., the subsample UCITS Fund = 1), the fourth column means for non-UCITS funds only (i.e., the subsample UCITS Fund = 0), and the fifth column provides p-values of the difference in means between the subsample of UCITS funds and non-UCITS funds. The sixth to eighth columns provide similar statistics and tests for differences in means between national funds (Nbr. Notifications = 1) and cross-border funds (Nbr. Notifications > 1).

Variables	Full Sample		UCITS Funds only	Non-UCITS Funds only	P-value: UCITS vs. Non-UCITS	National Funds only (Nbr. Notif. = 1)	Cross-Border Funds only (Nbr. Notif. > 1)	P-value: National vs. Cross-Border
	Mean	Std. Dev.	Mean	Mean		Mean	Mean	
Fund Current Status:								
Current Status: Active (dummy)	0.767	0.423	0.781	0.747	0.000	0.773	0.753	0.001
Current Status: Merged (dummy)	0.069	0.254	0.083	0.049	0.000	0.070	0.066	0.184
Current Status: Liquidated (dummy)	0.164	0.370	0.136	0.204	0.000	0.156	0.181	0.000
Fund Domiciliation:								
% funds domiciled in Luxembourg	0.293	0.455	0.395	0.147	0.000	0.077	0.686	0.000
% funds domiciled in France	0.182	0.386	0.133	0.253	0.000	0.260	0.048	0.000
% funds domiciled in Germany	0.053	0.224	0.058	0.046	0.000	0.068	0.027	0.000
% funds domiciled in Austria	0.066	0.249	0.053	0.085	0.000	0.086	0.032	0.000
% funds domiciled in Slovenia	0.002	0.045	0.000	0.005	0.000	0.003	0.000	0.000
% funds domiciled in the Czech Republic	0.003	0.054	0.001	0.006	0.000	0.004	0.001	0.000
% funds domiciled in Ireland	0.067	0.250	0.089	0.036	0.000	0.016	0.153	0.000
% funds domiciled in Spain	0.082	0.275	0.135	0.006	0.000	0.130	0.000	0.000
% funds domiciled in Italy	0.027	0.162	0.025	0.029	0.088	0.032	0.000	0.000
% funds domiciled in the UK	0.074	0.262	0.064	0.089	0.000	0.106	0.020	0.000
% funds domiciled in Switzerland	0.035	0.183	0.000	0.084	0.000	0.052	0.005	0.000
% funds domiciled in Latvia	0.001	0.032	0.000	0.002	0.004	0.001	0.001	0.120
% funds domiciled in Finland	0.014	0.117	0.013	0.015	0.192	0.017	0.009	0.000
% funds domiciled in Norway	0.006	0.078	0.007	0.005	0.316	0.009	0.001	0.000
% funds domiciled in Denmark	0.011	0.102	0.012	0.009	0.025	0.016	0.002	0.000
% funds domiciled in the Netherlands	0.007	0.085	0.000	0.017	0.000	0.011	0.000	0.000
% funds domiciled in Belgium	0.055	0.229	0.006	0.127	0.000	0.081	0.012	0.000
% funds domiciled in Sweden	0.009	0.097	0.006	0.014	0.000	0.012	0.004	0.000
% funds domiciled in Slovakia	0.001	0.024	0.001	0.000	0.432	0.001	0.000	0.009
% funds domiciled in Poland	0.011	0.106	0.003	0.023	0.000	0.018	0.000	0.000

<u>Fund Type:</u>								
Equity Fund (dummy)	0.330	0.470	0.379	0.260	0.000	0.280	0.428	0.000
Bond Fund (dummy)	0.156	0.363	0.180	0.123	0.000	0.137	0.195	0.000
Mixed Fund (dummy)	0.214	0.410	0.206	0.226	0.000	0.241	0.172	0.000
Money Market Fund (dummy)	0.051	0.219	0.054	0.046	0.008	0.055	0.044	0.000
Other Fund (dummy)	0.237	0.425	0.178	0.322	0.000	0.271	0.156	0.000
<u>Further Fund Characteristics:</u>								
Nbr. Notifications	2.637	3.746	3.654	1.178	0.000	1.000	5.641	0.000
Cross-Border (dummy)	0.355	0.478	0.521	0.116	0.000	0.000	1.000	--
Population	0.239	0.283	0.329	0.113	0.000	0.122	0.463	0.000
Fund Age (in years since launch)	3.767	2.079	3.662	3.922	0.000	3.760	3.763	0.901
UCITS Fund (dummy)	0.589	0.492	1.000	0.000	--	0.444	0.865	0.000
<u>Promoter Characteristics:</u>								
Top-50 Promoter (dummy)	0.563	0.551	0.5583	0.5706	0.091	0.5367	0.6207	0.000
Promoter is a Commercial Bank	0.636	0.481	0.5749	0.7222	0.000	0.7100	0.5187	0.000
Swiss Promoter	0.098	0.298	0.0838	0.1189	0.000	0.0744	0.1359	0.000
Non-European Promoter	0.069	0.254	0.0960	0.0312	0.000	0.0348	0.1241	0.000
Nbr. Observations	22634		13336	9298		14364	8033	

TABLE 3: Correlation Matrix

All the variables are defined in Table 1. Significance level: * for 1%.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1) Nbr. Notifications	1.000													
(2) Cross-Border (dummy)	0.595*	1.000												
(3) Population	0.920*	0.579*	1.000											
(4) Current Status: Active (dummy)	0.014	-0.024*	0.025*	1.000										
(5) Current Status: Merged (dummy)	0.001	-0.011	0.011	-0.494*	1.000									
(6) Current Status: Liquidated (dummy)	-0.017	0.035*	-0.036*	-0.803*	-0.121*	1.000								
(7) Fund Age (in years since launch)	0.029*	-0.001	0.002	-0.309*	0.161*	0.244*	1.000							
(8) Top-50 Promoter (dummy)	0.095*	0.077*	0.120*	-0.021*	0.014	0.015	-0.007	1.000						
(9) UCITS Fund (dummy)	0.325*	0.416*	0.376*	0.039*	0.065*	-0.090*	-0.061*	-0.095*	1.000					
(10) Equity Fund (dummy)	0.188*	0.155*	0.196*	0.020*	0.003	-0.025*	-0.018*	-0.078*	0.125*	1.000				
(11) Bond Fund (dummy)	0.087*	0.079*	0.065*	-0.015	0.009	0.011	0.045*	0.005	0.077*	-0.302*	1.000			
(12) Mixed Fund (dummy)	-0.119*	-0.077*	-0.097*	0.064*	0.001	-0.073*	-0.060*	-0.094*	-0.024*	-0.366*	-0.225*	1.000		
(13) Money Market Fund (dummy)	-0.025*	-0.024*	-0.009	-0.036*	0.023*	0.026*	0.038*	0.038*	0.018*	-0.162*	-0.099*	-0.120*	1.000	
(14) Other Fund (dummy)	-0.145*	-0.142*	-0.164*	-0.024*	-0.023*	0.042*	0.020*	0.148*	-0.167*	-0.391*	-0.240*	-0.291*	-0.129*	1.000

TABLE 4: Determinants of the Number of Notifications

The dependent variable in all the specifications is "Nbr. Notifications", which gives the total number of notifications of a fund at time of September 2009. The sample is all investment funds launched since 2002. The method of estimation is the Poisson regression. All the variables are defined in Table 1. A constant term is included in all the regressions, whose coefficient is not reported. Standard errors are clustered by vintage year. Significance levels: *** for 1%, ** for 5%, and * for 10%.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Variables	Full sample		Active Only		Active, UCITS		Active, Non-UCITS		Merged, UCITS	Liquidated, UCITS
Equity Fund (dummy)	0.45 ***	0.45 ***	0.54 ***	0.54 ***	0.61 ***	0.60 ***	0.17 ***	0.17 ***	0.22 *	0.16 *
Bond Fund (dummy)	0.35 ***	0.35 ***	0.42 ***	0.41 ***	0.49 ***	0.49 ***	0.13 ***	0.13 ***	0.31	0.11
Mixed Fund (dummy)	-0.05	-0.05	-0.003	-0.01	-0.05	-0.05	0.08 ***	0.08 ***	-0.16	-0.24 *
Money Market Fund (dummy)	0.15 ***	0.15 ***	0.22 ***	0.21 ***	0.28 ***	0.28 ***	0.08 ***	0.09 ***	-0.12	-0.05
UCITS Fund (dummy)	0.71 ***	0.66 ***	0.74 ***	0.59 ***	--	--	--	--	--	--
Fund Age (in years since launch)	0.31 ***	0.31 ***	0.30 ***	0.28 ***	0.36 ***	0.37 ***	-0.30	-0.01	0.89 ***	0.10
Fund Age squared	-0.03 ***	-0.03 ***	-0.03 ***	-0.03 ***	-0.04 ***	-0.04 ***	0.002	0.002	-0.09 ***	-0.01
"Fund Age" * "UCITS Fund"		0.01		0.04 **		--		--		
Top-50 Promoter (dummy)	0.25 ***	0.28 ***	0.26 ***	0.28 ***	0.28 ***	0.32 ***	0.08 *	0.18 ***	0.20 ***	0.21 **
"Fund Age" * "Top-50 Promoter"		-0.01		-0.01		-0.01		-0.03 **		
Current Status: Merged (dummy)	-0.19 **	-0.10 **	--	--	--	--	--	--	--	--
Current Status: Liquidated (dummy)	-0.19 ***	-0.19 ***	--	--	--	--	--	--	--	--
GDP Growth Rate at Launch Year	0.14	0.13	0.26 *	0.23 *	0.09	0.08	0.37 ***	0.36 ***	-0.82 ***	0.08
Euribor Rate at Launch Year	6.40 *	6.51 **	5.09	5.19	5.87	5.99	-2.40	-2.32	32.34 ***	4.17
Domiciliation Dummies included?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of Observations	21119	21119	16252	16252	9661	9661	6591	6591	1090	1762
Log Pseudo-Likelihood	-40143.7	-40139.1	-30955.2	-30938.2	-22773.1	-22770.3	-7490.4	-7487.8	-2186.6	-4215.7

TABLE 5: Determinants of Cross-Border Funds

The dependent variable in all the specifications is "Cross-Border (dummy)", which is a dummy variable equal to one if the given fund is notified outside its country of domiciliation and thus distributed cross-border, and zero otherwise. The sample is all investment funds launched since 2002. The method of estimation is the Probit regression. For ease of interpretation, we report changes in probabilities instead of direct coefficient estimates. All the variables are defined in Table 1. A constant term is included in all the regressions, whose coefficient is not reported. Standard errors are clustered by vintage year. Significance levels: *** for 1%, ** for 5%, and * for 10%.

	(1)	(2)	(3)	(4)	(5)	(6)
Variables	Full sample	Active Only	Active, UCITS	Active, Non-UCITS	Merged, UCITS	Liquidated, UCITS
Equity Fund (dummy)	0.06 ***	0.06 ***	0.07 ***	0.01	-0.02 ***	0.13 *
Bond Fund (dummy)	0.01	0.02 *	-0.02	0.01 *	-0.03	0.001
Mixed Fund (dummy)	-0.04 ***	-0.03 ***	-0.09 ***	-0.001	-0.02	-0.12
Money Market Fund (dummy)	-0.01	-0.01	-0.07 **	0.01 **	-0.02	-0.06
UCITS Fund (dummy)	0.26 ***	0.23 ***	--	--	--	--
Fund Age (in years since launch)	0.12 ***	0.10 ***	0.23 ***	0.003	0.12 **	0.29
Fund Age squared	-0.01 ***	-0.01 ***	-0.02 ***	-0.0004	-0.01 **	-0.04
Top-50 Promoter (dummy)	0.05 ***	0.04 ***	0.04 ***	0.02 ***	0.04 **	0.04
Current Status: Merged (dummy)	-0.01	--	--	--	--	--
Current Status: Liquidated (dummy)	-0.02 ***	--	--	--	--	--
GDP Growth Rate at Launch Year	0.02	0.04	-0.12	0.08 ***	-0.22 **	0.18
Euribor Rate at Launch Year	3.43 ***	2.14 ***	6.38 ***	-0.56 ***	6.56 **	16.22 **
Domiciliation Dummies included?	Yes	Yes	Yes	Yes	Yes	Yes
Number of Observations	21119	16252	9661	6591	1090	1762
Pseudo R-squared	58.0%	56.3%	55.9%	33.6%	80.6%	53.8%
Log Pseudo-Likelihood	-5809.8	-4613.9	-2950.0	-1467.2	-144.5	-529.6

TABLE 6: Determinants of the Scope of Distribution

The dependent variable in all the specifications is "Population", which gives the level of population implied by the achieved notifications by the fund as percentage of the European Union population. The sample is all investment funds launched since 2002. The method of estimation is the OLS regression. All the variables are defined in Table 1. A constant term is included in all the regressions, whose coefficient is not reported. Standard errors are clustered by vintage year. Significance levels: *** for 1%, ** for 5%, and * for 10%.

	(1)	(2)	(3)	(4)	(5)	(6)
Variables	Full sample	Active Only	Active, UCITS	Active, Non-UCITS	Merged, UCITS	Liquidated, UCITS
Equity Fund (dummy)	0.10 ***	0.11 ***	0.14 ***	0.03 ***	0.07 **	0.13 ***
Bond Fund (dummy)	0.07 ***	0.08 ***	0.11 ***	0.02 ***	0.07 *	0.13 ***
Mixed Fund (dummy)	0.001	0.004	-0.02	0.02 ***	-0.04	0.01
Money Market Fund (dummy)	0.03 *	0.03 *	0.05 ***	0.02 **	-0.01	0.08
UCITS Fund (dummy)	0.15 ***	0.16 ***	--	--	--	--
Fund Age (in years since launch)	0.09 ***	0.09 ***	0.11 ***	-0.001	0.29 ***	0.10
Fund Age squared	-0.01 ***	-0.01 ***	-0.01 ***	-0.0001	-0.03 ***	-0.01
Top-50 Promoter (dummy)	0.06 ***	0.07 ***	0.10 ***	0.001	0.08 **	0.03
Current Status: Merged (dummy)	-0.01 *	--	--	--	--	--
Current Status: Liquidated (dummy)	-0.04 ***	--	--	--	--	--
GDP Growth Rate at Launch Year	0.02	0.09 *	0.07	0.07 **	-0.16 *	-0.18 *
Euribor Rate at Launch Year	2.99 **	2.37 **	2.83 **	-0.46	12.21 ***	5.55
Domiciliation Dummy included?	Yes	Yes	Yes	Yes	Yes	Yes
Number of Observations	20890	16119	9543	6576	1075	1682
R squared	34.6%	35.8%	32.6%	49.4%	44.3%	20.6%

TABLE 7: The Effect of the Size of the Country of Domiciliation

The dependent variable is "Nbr. Notifications" for Regressions (1) -- (3), "Cross-Border (dummy)" for Regressions (4) -- (6) (with changes in probabilities reported below instead of direct coefficient estimates) and "Population" for Regressions (7) -- (9). The sample is all UCITS funds launched since 2002 and still active ("Current Status: Active (dummy)" = 1). All the variables are defined in Table 1. A constant term is included in all the regressions, whose coefficient is not reported. Standard errors are clustered by vintage year. Significance levels: *** for 1%, ** for 5%, and * for 10%.

Variables	Dep. Var. = Nbr. Notifications (Poisson regression)			Dep. Var. = Cross-Border (dummy) (Probit regression)			Dep. Var. = Population (OLS)		
	(1) Active, UCITS	(2) Active, UCITS	(3) Active, UCITS	(4) Active, UCITS	(5) Active, UCITS	(6) Active, UCITS	(7) Active, UCITS	(8) Active, UCITS	(9) Active, UCITS
Equity Fund (dummy)	0.66 ***	0.63 ***	0.57 ***	0.23 ***	0.22 ***	0.20 ***	0.17 ***	0.14 ***	0.13 ***
Bond Fund (dummy)	0.48 ***	0.52 ***	0.48 ***	0.10 ***	0.13 ***	0.13***	0.12 ***	0.11 ***	0.11 ***
Mixed Fund (dummy)	-0.01	-0.02	-0.08	0.05	0.03	0.01	0.01	-0.02	-0.03
Money Market Fund (dummy)	0.21 ***	0.29 ***	0.28 ***	-0.03	0.03	0.03	0.04 **	0.06 ***	0.06 ***
Fund Age (in years since launch)	0.24 **	0.37 ***	0.39 ***	0.17 **	0.29 ***	0.30 ***	0.08 *	0.11 ***	0.12 ***
Fund Age squared	-0.03 **	-0.04 ***	-0.04 ***	-0.02 **	-0.03 ***	-0.03 ***	-0.01 *	-0.01 ***	-0.01 ***
Top-50 Promoter (dummy)	0.36 ***	0.30 ***		0.16 ***	0.12 ***		0.13 ***	0.10 ***	
Population of the country of domiciliation	-7.54 ***	-0.14	0.09	-4.15 ***	-0.59 **	-0.50 *	-0.98 ***	0.95 ***	1.03 ***
GDP Growth Rate at Launch Year	0.96 ***	-0.02	-0.06	0.11	-0.53 ***	-0.57 ***	0.32 **	0.08	0.04
Euribor Rate at Launch Year	3.60	6.46	6.75	8.26 *	10.64 ***	11.16 ***	2.67	2.76	3.14 **
Fund is domiciled in Luxembourg (dummy)	--	1.46 ***	1.53 ***	--	0.70 ***	0.71 ***	--	0.44 ***	0.47 ***
Fund is domiciled in Ireland (dummy)	--	1.37 ***	1.37 ***	--	0.50 ***	0.49 ***	--	0.45 ***	0.45 ***
Number of Observations	9661	9661	9661	9661	9661	9661	9543	9543	9543
Log Pseudo-Likelihood	-24956.7	-22903.2	-23277.6	-4310.1	-3351.6	-3392.5	.	.	.
R squared	.	.	.	.	.	.	17.8%	31.1%	29.0%
Pseudo-R squared	.	.	.	35.5%	49.9%	49.3%	.	.	.

TABLE 8: The Effect of the Financial Crisis

The dependent variable is "Nbr. Notifications" for Regressions (1), (4) & (7), "Cross-Border (dummy)" for Regressions (2), (5) & (8) (with changes in probabilities reported below instead of direct coefficient estimates) and "Population" for Regressions (3), (6) & (9). The sample is all funds launched since 2002 in Regressions (1) -- (3), all equity funds in Regressions (4) -- (6) and all bond funds in Regressions (7) -- (9). All the variables are defined in Table 1. The only exception is the variable CRISIS, which is a dummy variable equal to one if the given fund was launched since the second half of 2007 (the recent financial crisis period that also hit the investment fund industry), and zero otherwise. A constant term is included in all the regressions, whose coefficient is not reported. Standard errors are clustered by vintage year. Significance levels: *** for 1%, ** for 5%, and * for 10%.

Variables	All Fund Types			Equity Funds			Bond Funds		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Nbr. Notifications	Cross-Border (dummy)	Population	Nbr. Notifications	Cross-Border (dummy)	Population	Nbr. Notifications	Cross-Border (dummy)	Population
Equity Fund (dummy)	0.45 ***	0.06 ***	0.10 ***	--	--	--	--	--	--
Bond Fund (dummy)	0.35 ***	0.01	0.07 ***	--	--	--	--	--	--
Mixed Fund (dummy)	-0.05	-0.04 ***	0.001	--	--	--	--	--	--
Money Market Fund (dummy)	0.14 ***	-0.01	0.03 *	--	--	--	--	--	--
UCITS Fund (dummy)	0.74 ***	0.25 ***	0.15 ***	0.86 ***	0.40 ***	0.17 ***	0.97 ***	0.35 ***	0.23 ***
CRISIS (dummy)	0.03	-0.03	-0.02	0.17 ***	-0.08 ***	-0.01	-0.01	-0.04	-0.03
UCITS Fund (dummy) * CRISIS (dummy)	-0.15 ***	0.02	-0.02	-0.28 ***	0.06	-0.05 **	-0.10	0.10 *	-0.03
Fund Age (in years since launch)	0.23 **	0.11 ***	0.06 *	0.23 **	0.14 **	0.09 *	0.22 *	0.14	0.04
Fund Age squared	-0.02 **	-0.01 ***	-0.01 *	-0.02 **	-0.01 ***	-0.01 *	-0.02 *	-0.01 *	-0.004
Top-50 Promoter (dummy)	0.25 ***	0.05 ***	0.06 ***	0.30 ***	0.07 **	0.10 ***	0.17 ***	0.07 **	0.07 ***
Current Status: Merged (dummy)	-0.11 **	-0.01	-0.02 *	-0.25 ***	-0.08	-0.05 *	-0.04	-0.05	-0.01
Current Status: Liquidated (dummy)	-0.19 ***	-0.02 ***	-0.04 ***	-0.31 ***	-0.03	-0.09 ***	-0.27 ***	-0.08 *	-0.06 *
GDP Growth Rate at Launch Year	0.16	0.03	0.05	-0.05	0.06	-0.01	0.48	0.21	-0.07
Euribor Rate at Launch Year	4.89	3.20 ***	2.43 *	2.94	5.85 **	3.89 *	7.97	0.71	3.03
Domiciliation Dummy included?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of Observations	21119	21119	20890	6999	6999	6892	3185	3185	3146
Log Pseudo-Likelihood	-40118.7	-5808.3	.	-16199.5	-2167.0	.	-7283.1	-988.3	.
R squared	.	.	34.7%	.	.	28.6%	.	.	28.1%
Pseudo-R squared	.	58.0%	.	.	55.2%	.	.	55.0%	.

TABLE 9: Percentage of all Funds notified in Given Region (for Funds launched After 2001)

Continent	Country	Percentage of all funds	Percentage of all UCITS funds
ASIA-PACIFIC	Australia	0.14%	0.20%
	China	0.00%	0.00%
	Cook Islands	0.00%	0.00%
	Hong Kong	3.44%	5.33%
	India	0.00%	0.00%
	Indonesia	0.00%	0.00%
	Japan	0.61%	0.45%
	Macau	1.45%	2.32%
	Malaysia	0.00%	0.00%
	New Zealand	0.02%	0.02%
	Pakistan	0.00%	0.00%
	Philippines	0.00%	0.00%
	Singapore	6.09%	8.89%
	South Korea	0.71%	1.11%
	Taiwan	2.00%	3.11%
Thailand	0.00%	0.00%	
Vanuatu	0.00%	0.00%	
Vietnam	0.00%	0.00%	
EASTERN EUROPE	Bosnia	0.00%	0.00%
	Bulgaria	0.20%	0.31%
	Croatia	0.00%	0.00%
	Czech Republic	2.89%	4.09%
	Estonia	0.66%	1.03%
	Hungary	0.58%	0.93%
	Latvia	0.67%	0.94%
	Lithuania	0.54%	0.80%
	Macedonia	0.00%	0.00%
	Poland	2.10%	2.30%
	Slovakia	1.10%	1.44%
Slovenia	0.20%	0.29%	
AMERICAS	Argentina	0.00%	0.00%
	Bahamas	0.01%	0.01%
	Barbados	0.00%	0.00%
	Bermuda	0.00%	0.00%
	Brazil	0.00%	0.00%
	British Virgin Islands	0.00%	0.00%
	Canada	0.14%	0.22%
	Cayman Islands	0.03%	0.04%
	Chile	3.11%	4.93%
	Mexico	0.01%	0.01%
	Netherlands Antilles	0.00%	0.00%
	Panama	0.00%	0.00%
	Peru	1.05%	1.64%
	Puerto Rico	0.00%	0.00%
	Trinidad & Tobago	0.16%	0.26%
United States	0.03%	0.01%	

TABLE 10: Summary Statistics of all UCITS Funds notified in Different Countries of the Asia-Pacific Region and the Americas and registered for domiciliation in one of the EU countries as UCITS (for Funds launched after 2001). Only Countries with marked in bold in Table 7 are presented.

Panel A

Country	Country of Domiciliation						Fund Asset Type (% all funds, not based on NAV)				
	Luxembourg	Ireland	Germany	France	UK	Others > 0%	Equity	Bond	Mixed	Money Market	Other
Hong Kong	76.71%	22.97%	0.00%	0.32%	0.00%	--	66.51%	21.53%	4.78%	2.07%	5.10%
Macau	78.32%	21.68%	0.00%	0.00%	0.00%	--	68.14%	20.80%	6.19%	0.88%	3.98%
Singapore	73.63%	23.15%	0.07%	1.17%	1.68%	Austria (0.07%), Sweden (0.22%)	56.12%	23.74%	6.89%	4.03%	9.16%
Taiwan	67.63%	30.29%	0.00%	0.83%	0.41%	Belgium (0.83%)	64.32%	28.22%	6.64%	0.83%	0.00%
Chile	82.72%	12.74%	0.22%	1.94%	1.51%	Austria (0.86%)	61.56%	26.13%	4.10%	4.10%	4.10%
Peru	80.91%	14.55%	0.00%	2.73%	1.82%	--	61.82%	29.09%	4.55%	4.55%	0.00%

Panel B

Country	Nbr. Notifications of fund	Top-50 Promoter	Top-25 Promoter	NAV (million EUR)	Still			Nbr. Funds launched within Vintage Period	
					Active	Merged	Liquidated	Jan. 2002 - Dec. 2005	Jan. 2006 - Sept. 2009
Hong Kong	13.86	54.39%	22.65%	80.56	79.90%	5.74%	14.35%	322	305
Macau	16.96	59.29%	21.68%	98.69	81.42%	6.19%	12.39%	157	69
Singapore	12.37	59.63%	37.14%	98.84	78.84%	6.38%	14.80%	681	684
Taiwan	15.82	57.68%	24.48%	155.17	93.78%	3.73%	2.49%	175	66
Chile	14.48	68.90%	50.54%	123.83	88.77%	6.48%	4.75%	293	170
Peru	16.52	49.09%	28.18%	187.04	93.64%	2.73%	3.64%	80	30

TABLE 11: Determinants of Notifications Outside Europe

The dependent variable is a dummy variable for Regressions (1), (3) and (5), and the number of notifications in the given areas for Regressions (2), (4) and (6). For the first set of regressions (using Probit regression estimation), changes in probabilities are reported below instead of direct coefficient estimates, while in the second set we use Poisson regression method. The sample is all UCITS funds launched since 2002. All the variables are defined in Table 1. A constant term is included in all the regressions, whose coefficient is not reported. Standard errors are clustered by vintage year. Significance levels: *** for 1%, ** for 5%, and * for 10%.

Variables	Outside Europe		Asia-Pacific		Americas	
	(1)	(2)	(3)	(4)	(5)	(6)
	Whether Notified	Nbr. Notifications	Whether Notified	Nbr. Notifications	Whether Notified	Nbr. Notifications
Equity Fund (dummy)	0.02 ***	0.63 ***	0.02 ***	0.86 ***	0.01 ***	1.95 ***
Bond Fund (dummy)	0.02 ***	0.35 **	0.01 ***	0.60 ***	0.02 ***	1.68 ***
Mixed Fund (dummy)	-0.01 ***	-0.57 ***	-0.01 ***	-0.32	0.00004	0.13
Money Market Fund (dummy)	0.10	0.01	0.01	0.15	0.01 ***	1.49 ***
Fund Age (in years since launch)	0.03 ***	0.75 ***	0.02 ***	0.67 ***	0.01 ***	1.17 ***
Fund Age squared	-0.003 ***	-0.06 ***	-0.002 ***	-0.06 ***	-0.001 ***	-0.11 ***
Top-50 Promoter (dummy)	0.01 *	0.12	0.004	0.14	-0.001	-0.32 *
Current Status: Merged (dummy)	-0.01 ***	-0.40 ***	-0.01 ***	-0.30 **	-0.002 ***	-0.80 ***
Current Status: Liquidated (dummy)	-0.01 ***	-0.64 ***	-0.01 ***	-0.80 ***	-0.004 ***	-1.80 ***
Promoter is a Commercial Bank	0.01 ***	0.16 *	0.004 **	-0.07	0.002 *	0.33
Swiss Promoter	0.02 ***	-0.02	0.02 ***	0.17	0.00002	0.08
Non-European Promoter	0.14 ***	1.10 ***	0.11 ***	1.25 ***	0.004 *	0.48
GDP Growth Rate at Launch Year	-0.05 **	-0.74	-0.03 ***	-1.07 **	0.002	0.67
Euribor Rate at Launch Year	0.83 ***	5.96	0.51 ***	7.25	0.02	6.51
Domiciliation Dummies included?	Yes	Yes	Yes	Yes	Yes	Yes
Country dummy with largest coefficient	Ireland	Luxembourg	Ireland	Luxembourg	Ireland	Luxembourg
Country dummy with 2nd largest coefficient	UK	Ireland	Belgium	Ireland	UK	Ireland
Country dummy with 3rd largest coefficient	Austria	UK	UK	Belgium	Austria	UK
Number of Observations	8147	8147	8147	8147	8147	8147
Log Pseudo-Likelihood	-2638.8	-5188.7	-2343.5	-3863.6	-1311.2	-1522.1
R squared	.	.	.	.	.	.
Pseudo-R squared	32.4%	.	32.2%	.	25.0%	.

FIGURE 1 – Panel A to C: These figures show the proportion of investment funds that are UCITS funds by vintage year (year of launch). The x-axis “year” refers to launch/vintage year. Panel A is for the full sample, Panel B is for “national” funds only (i.e., only one notification, namely in the country of domiciliation) and Panel C is for cross-border funds (i.e., funds notified in more than the country of domicile).

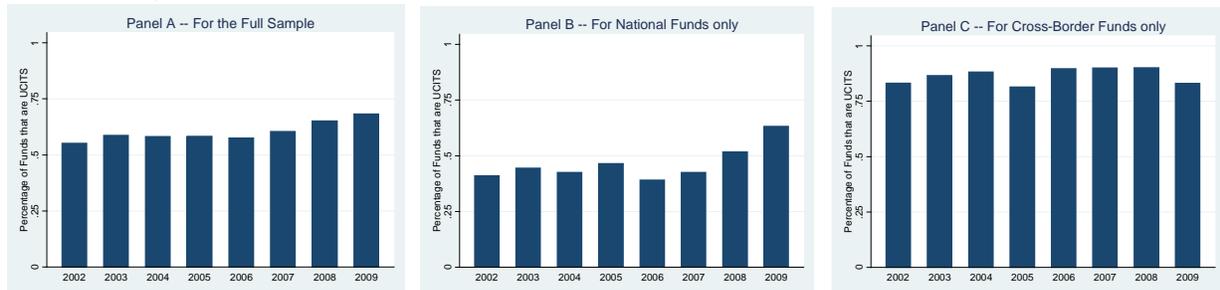


FIGURE 2 – Panels A to F: These figures show the number of funds newly launched by year from 2002 onwards (recall that 2009 is only partial and therefore difficult to compare with previous years). Top panels are for UCITS funds and the three others for non-UCITS funds. In each case, we provide the number of new funds overall (i.e., all promoters), for the Top-50 promoters only, and for all other promoters.

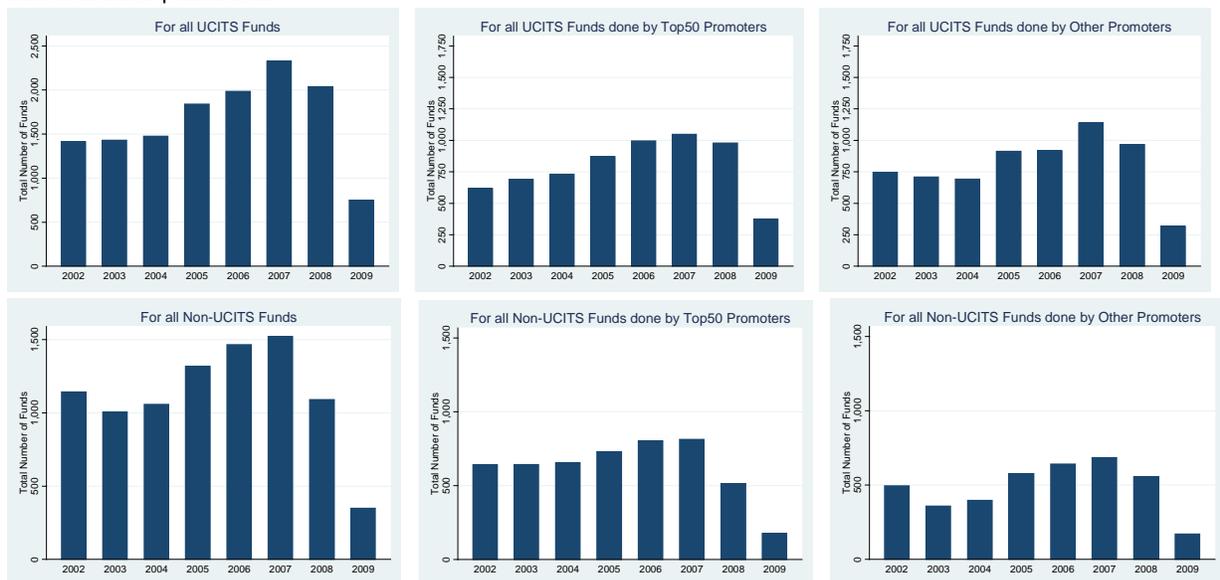


FIGURE 3: Average annual number of notifications of UCITS (left-hand side) and non-UCITS funds (right-hand side) by vintage/launch year from 2002 to 2009 (for 2009 until September only).

