OBSERVATOIRE DE L'EPARGNE EUROPÉENNE

La Lettre de l'OEE

N°3 **june 2000**

Summary

Editorial

Jacques de Larosière

J'ai le plaisir d'accueillir, parmi les nouveaux membres de l'Observatoire, le Groupement Européen des Caisses d'Epargne. C'est la première association européenne à nous rejoindre et j'espère qu'elle sera suivie par d'autres. Une collaboration prometteuse a été engagée avec ce nouveau membre, puisque nous disposerons désormais grâce à lui d'un bureau à Bruxelles, qui sera notre base logistique pour approcher les institutions européennes.

Le site Internet de l'Observatoire est désormais ouvert au public, et je vous invite à le consulter, à nous faire part de vos suggestions pour l'améliorer, l'enrichir, le tenir à jour. Le site comporte, pour nos membres, un accès direct à la base de données New Cronos d'EUROSTAT, et à notre propre base de données statistique et méthodologique qui rassemble et organise les informations dont nous disposons.

Les premières études réalisées pour le compte de l'Observatoire seront diponibles à l'automne. Sans attendre, il m'a paru intéressant de proposer un éclairage sur la composition du patrimoine financier des ménages, en lien avec une analyse des sources de financement de l'économie. Vous trouverez aussi dans ce numéro une présentation de la classification des fonds mutuels, proposée par la Fédération Européenne des Fonds d'Investissement (FEFSI).

I have the pleasure to welcome among the new members of the OEE the European savings Banks Group. It is the first European association to join us and we hope that others will follow. Our promising cooperation with this new member has already begun as from now on we will have thanks to him an office in Brussels, which will be our logistical base for approaching European institutions.

The website of the OEE is now accessible from the public and I invite you to consult it, to inform us of your suggestions in order to improve it, to complete it and to update it. The site includes, for our members, a direct access to EUROSTAT's New Cronos database as well as to our own database which regroups and organises information we have collected.

The first studies realised for the OEE will be released next Autumn. In the meantime, it seemed interesting to me to shed some light on the compostition of households' financial wealth, in relation with an OEE research project on the economy's financing sources. In addition, you may find in this issue of the OEE's Letter a presentation of the Mutual Classification Scheme proposed by the « Fédération Européenne des Fonds d'Investissement » (FEFSI).

Structure of Savings and Financing in European Economies

Jacques de Larosière
Chairman of the OEE

Introduction

The traditional approach to financing the economy is based on the financing capacity of households, covering corporate and public sector requirements, with adjustments provided by financial institutions and non-residents.

However the slowdown in growth between the end of the eighties and 1997 led to a substantial decrease in corporate financing requirements and in some years companies actually achieved self-funding. Higher public spending in some countries during the same period led to a substantial increase in the State borrowing requirement.

The whole situation has changed as a result of the resumption of growth and the budgetary discipline imposed on the euro zone countries: admittedly, public sector bodies continue to post a sizeable deficit; however they no longer absorb a growing share of savings and companies now require funds for investments.

The national accounts provide the appropriate framework for establishing the breakdown of funds used for the purpose of financing the economy, involving on the one hand economic agents who have a financing requirement and on the other hand those who have a funding capacity.

Consider for example the case of two countries such as France and the United Kingdom, for which statistical data are available.

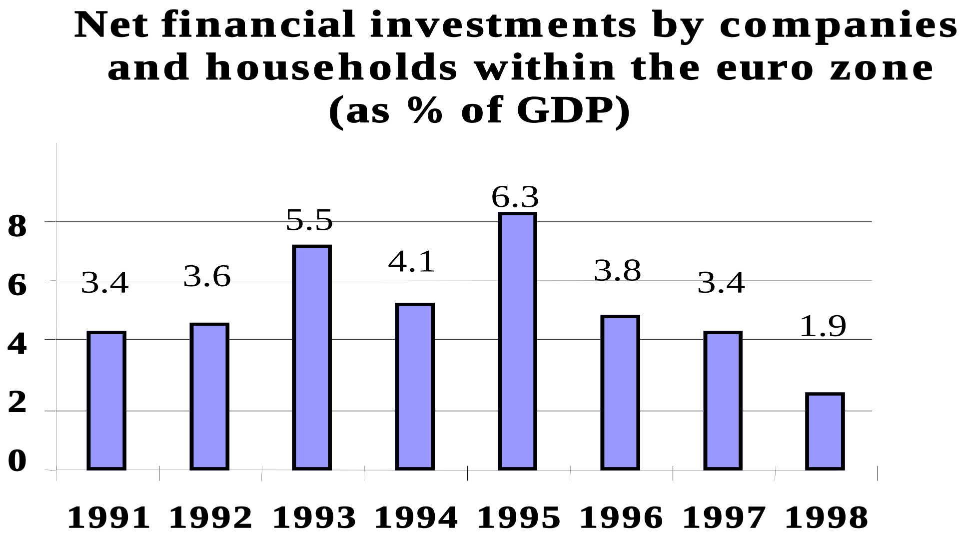
Financing capacity (+) and requirement (-) - EUR billions - 1998					
	Households	**Non financial sector companies**	**Public sector bodies**	**Financial institutions**	**Non residents**
France	85.3	- 21.0	- 38.5	8.8	- 37.6
United Kingdom	9.8	-24.0	-5.0	13.4	4.3

This table shows that household savings are much higher in France than in the United Kingdom; however the French public sector deficit is also much higher. France overall posts a balance of payments surplus (it funds overseas countries), whereas the United Kingdom shows a small deficit.[1]

[1] The numbers may vary from one year to another. For example, in the UK, the household funding capacity and the financing requirement of public bodies were much higher in 1997 (43 billion and 22.6 billion euros respectively).

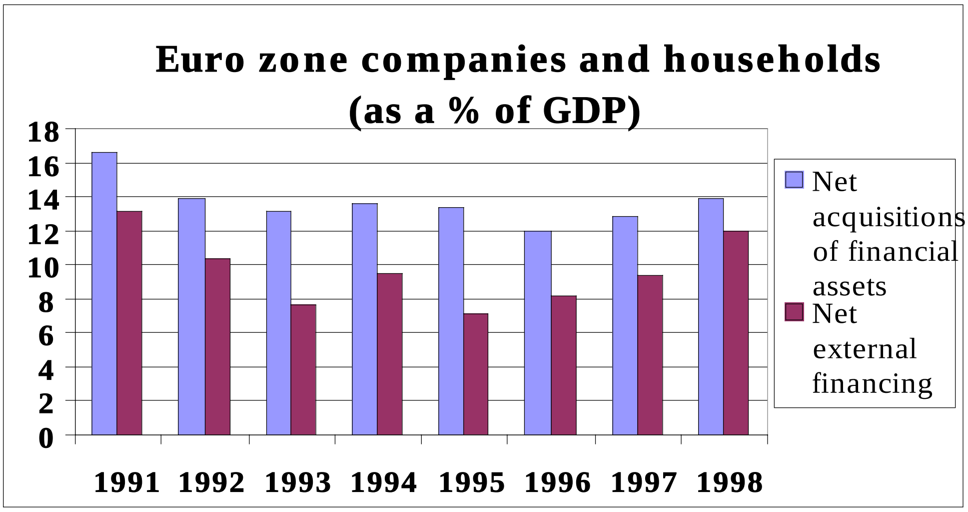
Only households have the structural capacity, given their savings patterns, to respond to corporate funding requirements.

Within the euro zone, the European Central Bank expresses the "net financial investments" of the non-financial private sector, meaning non-financial companies and households, in relation to GDP. This aggregate represents the difference between the acquisitions of financial assets and the external funding sources of the relevant economic agents. In the field of financial transactions, this concept is the mirror image of the funding requirement and capacities found in the National Accounts.



As shown above, financial investments by the financial sector rose to as much as 6.3% of GDP in 1995. They have been in constant decline since then.

There are some interesting comments to be made on the breakdown of this aggregate between its positive component (the acquisition of financial assets) and its negative component (external funds).



The acquisition of financial assets has been relatively stable: apart from 1991, the latter have always represented between 12 and 14% of GDP. External funding changes far more frequently. Growth in the latter, particularly the bank lending component, accounts for the decline in net financial investments (meaning the net savings of private economic agents) since 1991. Given the current trend, **private agents are close to reaching negative financial savings**. Outstanding loans to non-financial companies rose by 6% in 1999 and outstanding loans to households within the euro zone rose by 9%. According to the ECB, the trend actually appears to have accelerated during the first few months of 2000.

This trend has been caused by the resumption of growth and investment. It is therefore clearly positive. However there still has to be some assurance on the one hand that there is no threat to the overall equilibrium of the financing of the economy as a result of inadequate savings, and on the other hand that savings products acquired by agents with a funding capacity – mainly households – are adequate in relation to corporate financing requirements, while recognising the role played by financial intermediaries in the required adjustments.

The first part of this presentation will show that in spite of the relative stability of the overall amount of financial investments by private agents, the allocation of household savings to the various types of products varies considerably over time and within the European region.

We will then attempt to identify the similarities and differences in the financing modes of European companies and to analyse over a more protracted period the sources of financing for French companies.

Finally, we will analyse the ownership structure of equities in Europe and the differences in the tax treatment applied to shareholders.

I Household savings: major national differences, yet converging trends

Savings are an economic flow, but the varying nature of the latter complicates the analysis of any given year. In order to gain an overall view, it is therefore preferable to cumulate the flows over several years or to analyse the inventory. We have opted for the latter option: household wealth is also affected by the price volatility of the relevant components, but it is necessary to take the effect of wealth on savings patterns into consideration even though it may vary.

The table below shows the main categories of financial assets held by households in 5 European countries. Given the heterogeneous nature of the method for assessing unlisted shares in the various countries (see ESI letter n°2, dated March 2000), we have excluded this item from the comparison.

Breakdown of household financial assets between 1991 and 1998 (as a %)

	Germany		Spain		France		Italy		U.K. (1998)
	1991	1998	1991	1998	1991	1998	1991	1998	
Cash and deposits (banks)	52.6	39.7	74.0	44.1	48.3	43.8	56.1	29.3	23.4
Negotiable debt securities	17.3	13.5	3.1	2.5	6.0	3.2	24.1	22.7	0.9
Listed shares	5.0	7.9	6.7	14.8	6.2	7.5	7.2	13.2	10.8
Mutual funds	5.3	10.1	6.0	24.2	21.2	13.4	2.6	21.3	5.2
Amounts owed by insurance companies, retirement rights and company savings schemes	19.8	28.9.	10.1	14.4	18.3	32.2	10.0	13.5	59.8
Total	100	100	100	100	100	100	100	100	100

Sources: Central banks and data from CREP-SA (1998), Caisse des Dépôts et Consignations (1991) and ESI (not including unlisted shares).

This table shows that it is difficult to establish the typical profile of the financial wealth of European households. Analysis should therefore be based on the major categories of products.

Banking products

A high amount of savings are held in various forms with banks in **Germany, Spain and France**. This accounts for approximately 45% of household wealth in these countries. In Germany, over half of the amount of savings held in banking products is invested in savings books, either subject to withdrawal notice or negotiable.

Conversely, in Italy and the United Kingdom, banking products represent a lower proportion of household financial assets. In the case of Italy this is all the more remarkable as the "cash and deposits" component is higher than in the rest of Europe, perhaps as a result of a long history of inflation which has maintained transactions at a high level.

Negotiable debt securities

In Italy, private investors continue to play a major role in the bond market. Conversely, private investors have withdrawn from the bond market in France, in the United Kingdom and Spain, and Germany stands midway in relation to the above. The reason for this is the increasingly professional nature and the modernisation of the government debt markets. For example, in France the structure of the OAT market on the basis of the SVT primary dealerships was designed for institutional investors.

The share of bonds in household portfolios has declined over the past decade: throughout Europe there has been a trend towards marginal levels of ownership.

Listed shares

At the end of 1998, Germany and France posted the lowest amount of listed shares held as part of household financial wealth, as the levels stood between 7 and 8 % respectively. This was almost half the amount held in Italy and Spain, where the relative weight of listed shares has risen sharply over the decade. The United Kingdom shows a 10.8% level of ownership within household portfolios and is therefore in an intermediate category. These numbers reflect direct ownership of equities. A study commissioned by ESI is currently underway on direct and indirect ownership of shares (through life assurance, mutual funds and pension funds).

As a general rule, **listed shares only account for a minor proportion of European household savings**.

However over the decade, the relative weight of equities has tended to increase throughout Europe. Share prices have risen substantially during the period. European households have benefited from this but have not readjusted their portfolios: generally speaking, they have not realised potential capital gains. Nor have they made any significant equity-related expenditure in macro-economic terms.

Mutual Funds

The relative share of mutual funds is high in Italy and Spain. It is extremely low in the United Kingdom due to both the volume of equities listed in this country and to the volume of funded pension plans. France and Germany are at an intermediate level. In the United Kingdom, Italy, Belgium and the Netherlands, equity mutual funds are predominant. In other countries, the majority of mutual funds are comprised of debt instruments (bond or money market mutual funds).

The relative share of mutual funds is increasing in most countries. This does not however apply to France, given the gradual decline in money market mutual funds between 1993 and 1998. However, French households became net buyers of money market mutual funds in 1999 due to rising short-term interest rates and tax exemptions on capital gains below FRF 50,000.

Moreover, mutual funds only account for a **relatively small share of UK portfolios**, due to both the volume of equities listed in this country and that of funded pension schemes.

Life assurance and pension products

The United Kingdom stands apart in terms of the share represented by these products, which account for the majority of household portfolios due to the widespread use of funded pension schemes.

In France and Germany, insurance companies account for more than a fifth of household wealth, but in Germany – unlike France – pension schemes have a

significant presence (6.4% of wealth) although the figure is lower than that in the United Kingdom.
In all countries, this item of household wealth is gaining importance. **Pension plans and life-assurance contracts are increasingly popular and are often boosted by tax incentives**.

The structure of the financial wealth of European households remains fairly diverse. However, trends are converging: banking products and debt securities are losing ground, while listed shares and life-assurance products are increasingly popular. Two countries – France and Germany - already have a relatively similar structure, with the most substantial difference being the portion of debt securities held, which remains high among German households.

II Corporate Finance

A study carried out by Caisse des Dépôts et Consignations highlights the corporate financing structure in five European countries. For non-financial companies, the situation can be summarised as follows:

Corporate financing for non-financial companies. Accumulated flows 1991-97 as %

	Loans from financial institutions	**Financial markets**	**Other sources**
Germany	74.7	8.7	16.6
Spain	33.3	14.6	52.1
France	2.3	60.4	37.3
Italy	30.5	37.7	31.8
Euroland (4 countries)	45.8	26.7	27.5
United Kingdom	12.6	64.3	23.1

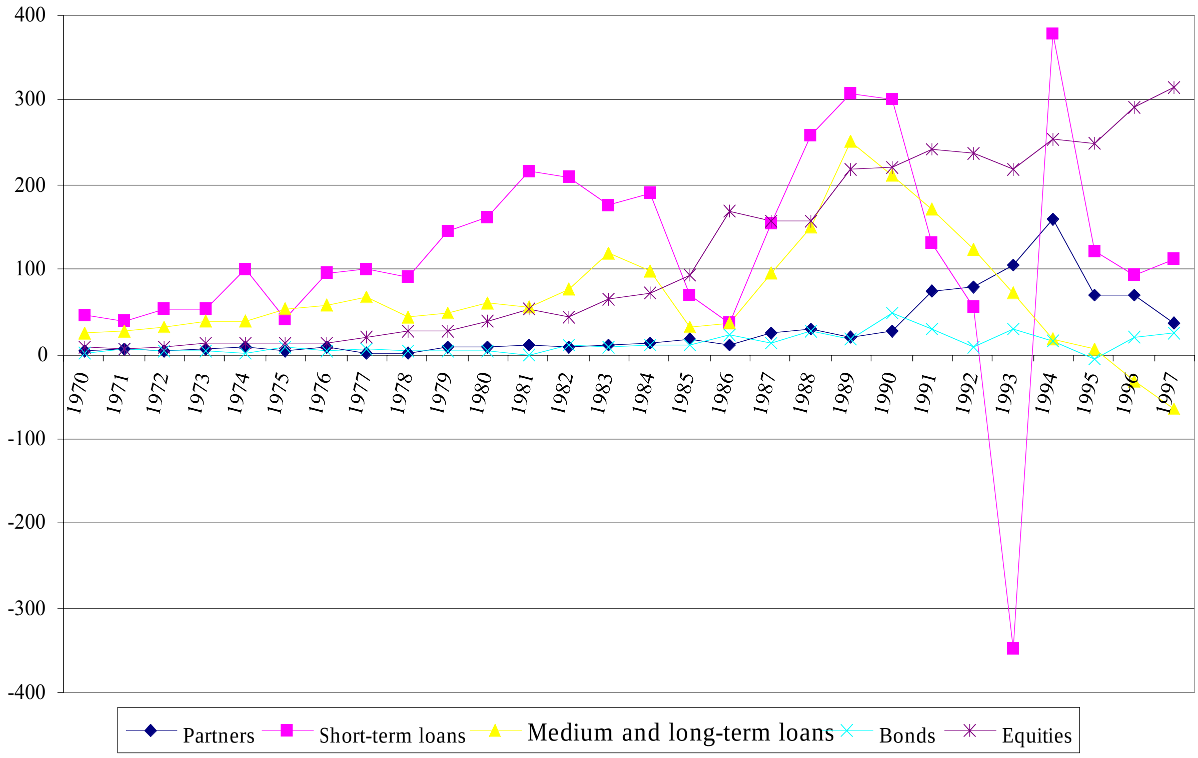
Source: CDC

In the four Euroland countries, funding through the use of intermediation accounts for nearly half of all corporate finance, unlike the United Kingdom, where the financial markets account for nearly two-thirds of corporate finance.
Germany stands apart from the other countries by the substantial share of finance through intermediation. The "German model" of close ties between banks and companies is reflected in the figures. The development of the financial markets in Germany – while spectacular when seen in terms of the success of EUREX and the planned merger with the London Stock Exchange – has not yet had a visible effect at a macro-economic level. The relatively high number of medium-sized companies in Germany are not affected by the "marketisation" of the financing methods of German blue chips.

The particular feature of Spain stems from the importance of other financing methods, most likely inter-company credit.

France distinguishes itself by the very large portion of disintermediated finance over the period.

Sources of finance of French companies (bn FRF)



The statistics show that **until 1997, the bond market occupied a marginal position in non-financial companies' financing methods** (excluding major nationalised companies). A high was reached in 1990, with new finance amounting to FRF 49 billion. However, in the same year, new short-term loans amounted to FRF 300 billion and medium-long term loans amounted to FRF 210 billion.

Over a longer period (1970-1997), short-term credit almost always exceeds FRF 100 billion per year. However, after peaking in 1989, medium and long term credit has steadily fallen, so that in 1996 and 1997, repayments exceeded new loans granted.

The share of equities increased over the period, but for the most part, this concerned non-listed shares. From 1978 to mid-1997, listed equities only represented on average 10% of all shares issued, whether listed or not. Listed shares only began to gain importance from late 1997 to 1998. (In terms of flows, the statistical uncertainty on the valuation of wealth disappears, and it can be assumed that these figures are reliable).

The most recent data, which do not identify firms other than large nationalised companies, shows that in 1998 and 1999, share issuance remained high, while long-term loans and bond issues gathered momentum. Short-term credit declined in this recent period, and was even negative in 1998.

French corporate finance flows (in billions of euros)		
	1998	**1999**
Money market	2.9	10.1
Bonds	11.0	20.0
Short-term loans	-2.3	5.9
Long-term loans	9.8	21.7
Equities	50.0	31.7
Total	**71.5**	**89.4**

III <u>Who are the shareholders</u>?

The following table – extracted from the "Bollon report" on tax on savings and the risks of delocalisation – is a fair illustration of the differences seen in corporate finance.

Structure of share ownership (%) at the end of 1998				
	United States	**Germany**	**United Kingdom**	**France**
Households	45.6	1.3	16	11.1
Companies	n.a.	38	1.4	17.7
Pension funds, insurance, mutual funds	45.8	26.1	54	26.6
Non residents	7	11.8	27.8	35.7
Other	1.6	6.1	0.8	8.9

Source: central banks, Caisse des dépôts et Consignations calculations

Europe differs from the United States through the lesser proportion of households and the greater proportion of non-residents.

In Germany, the structure of cross-shareholdings accounts for the extremely high volume of share capital held by other companies. However, the situation is changing in Germany: as in France over the last few years, cross-shareholdings are being "uncrossed", and this trend can only be boosted by the tax reforms announced by the Schroder government: this reform will enable the "uncrossing" to be carried out with no tax on capital gains.

The United Kingdom is distinguished by the very **heavy presence of pension funds** in company share ownership.

France is characterised by the very large position taken in the past few years by non-resident investors. The ability of the French economy to attract international investors is extremely praiseworthy. It should nevertheless be recognised that this situation is also a reflection of the lack of domestic investors: no category of economic agents has taken over from individual investors, who still held a third of the capital of French companies some fifteen years ago.

There have however been some changes in these trends recently: individual investors are increasingly active on the equity markets, specifically via the Internet and on-line brokers. The paradox is that in recent years, despite a declining macroeconomic presence in company capital, many individual investors continue to hold equities: 5.2 million individuals, i.e. over 10% of the adult population. It is possible that the new category of equity investors – younger and more active – will eventually represent a greater portion than the millions of people who bought some shares during the 1980s and 1990s – often during privatisations.

There has also been a slight drop in intermediated savings invested in equities. Life-assurance contracts are increasingly based on units of account, and are invested in equities. Equity mutual funds now account for a third of outstanding French mutual funds, even though the decline in money market funds now appears to have come to an end.

In all distortions of the structure of savings investments, taxation plays a decisive role. In France, the "Bollon Report" reviewed the taxation of securities in Europe.

- For dividends, **all European countries except France and the United Kingdom withhold tax at source**, which may be deductible (Belgium, Italy and Switzerland) or not (Germany, Spain, Luxembourg). However, in Germany, tax at source is deductible in practice, as income from securities is rarely declared to the tax authorities. The tax rate varies from 12.5 in Italy and Luxembourg to 35% in Switzerland. The Bollon report notes that the **common law tax regime applicable in France is one of the most demanding in Europe due to the particularly high marginal tax rate**.

- For capital gains, the differences are greater between countries where capital gains are tax free (Belgium and Switzerland) and those which distinguish between short-term and long-term capital gains (Germany, Spain, Luxembourg). Tax rates vary significantly, ranging from 12.6% in Italy (for "non-qualified" holdings) to 56% in Spain (for short-term capital gains). Yet again, **French shareholders are penalised as there is no assumption of tax exemption or reduced rates and the tax threshold is very low**.

Overall, the "Bollon report" **criticises the fiscal instability** that is imposed on resident shareholders, which non-residents largely avoid. This is particularly harmful to long-term investments such as equity investments. For example, in 1996, the threshold at which capital gains are exempt of tax was cut without warning. Similarly, in 1996 and 1997, holders of existing equity savings plans were subject to additional taxation without any provision for closing the plans under the initial terms defined by legislation introduced in 1992.

Conclusion

The economic situation in Europe has changed over the last 2 to 3 years. Companies have increasing financing requirements in order to invest. Households may increasingly be able to meet these requirements due to a heightened awareness of the uncertainties weighing on their own pensions that will encourage them to buy equities, either directly or indirectly via pension funds, mutual funds and life-assurance. Unfortunately, the tax treatment of equities in France does not sufficiently take into account the need to encourage the channelling of savings to company equity.

The major issue in Europe that has not yet truly been resolved is that governing tax on savings. Current discussions on taxation governing bonds are more influenced by the competition between financial centres than by concerns for developing a long-term plan. However, competition by nature generates instability as the issues involved shift over time. Public debate – highlighted by the facts – will be the precursor to the preparation of a plan of action and decisions to be made at the level of the European institutions, even though any such decisions will be applied

OEE is now Online
at http://www.oee.fr

Laurent Grillet-Aubert[1]

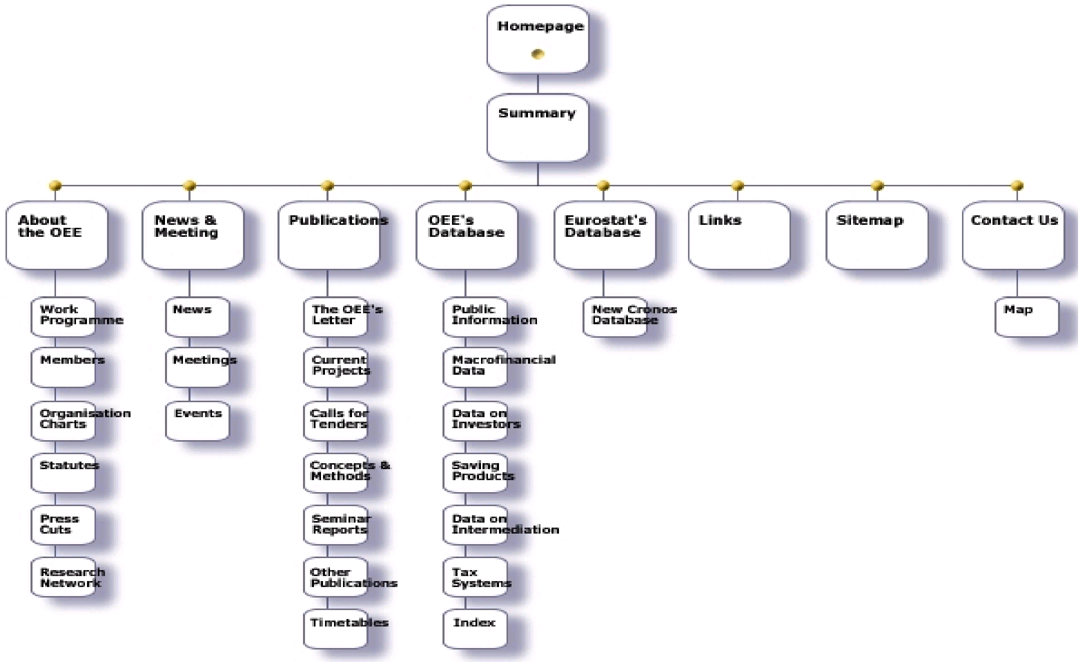
The English version of the OEE's website has been released at the end of June 2000 and will be followed shortly by a French version. At a later stage, a version in German will is also planned.

1) The website's functions :

The typical OEE surfer(s) :
The website fulfills several functions for the OEE and aim in particular at :
- providing OEE's members with practical information, its statistical and research production on a selective basis (access to information reserved for members is secured by password);
- promoting the OEE as to increase public awareness of developments regarding European savings.

General architecture :
The sitemap gives a general picture of the website's structure (see picture) as developed against this background.

[1] Economist, OEE.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Map

2) Rooms of the building :

The front door :
The homepage presents the OEE in a few words and gives users the choice of their preferred language. It leads subsequently to a "Summary" page with editorial content : major news on the one hand (and if needed redirection to more detailed information in the "News" section) and recent additions to the website on the other hand.

From there navigation depends largely on users' needs.

Entrance hall: the general public's area :
The general public may make use of all categories of the main menu, the category providing with direct access to the Eurostat's NewCronos database excepted.

Some of these categories contain information on the OEE itself:
- The "About the OEE" category lists the association's members, showing on which financial basis the association rests. Organisation charts provide with a synthetic view on connections between the various bodies involved in the association's management, as well as with a complete list of the members of the board and of the advisory committee. Formal information on the functioning of the OEE is to be gained from the "Statutes" of the association, more practical and timely information can be drawn from the "OEE's work programme".
- "Press cuts" underline the OEE's credibility –and this hopefully even more, once results of its current research projects will be released.
- The "Contact Us" category gives practical details for contacting and meeting OEE's representatives in Paris and Brussels. Pictures improve the view on OEE's operational teams.

Other categories contain original information from the OEE on European savings:
- The "News" page shows the OEE's press releases (which will become more numerous soon) and redirects to its subsections either for detailing headline news themselves (as in the equivalent section of the newsletter) or for providing with an agenda of forthcoming events related to savings (also published in the newsletter).
- Given the current policy of openness aiming at promoting the OEE, the full content of the "Publications" section is currently available without restriction. This is in particular the case of the "OEE's Letter", the "Seminar Reports" and the "Concepts & Methods" subsections which contain original productions of the OEE.
- The "Public Information" section of the "OEE's database" presents information of interest to the general public –for example tables comparing savings rates in Europe- and aims at increasing public awareness and comprehension of OEE's work. The rest of the database is accessible to members only but allows nonetheless the general public to see the database's structure. The content of the items (the files) listed can however be viewed only with a password.

Private rooms: the members area :
The part of the website accessible only with a password targets more specifically economists and specialists of savings :

- The "Current Projects" section deals with both research projects currently financed by the OEE and completed ones. It will subsequently add the full reports of completed research projects to information on projects underway. Depending on OEE's development and strategic choices, access to other parts of the "Publications" category may also become restricted to members.
- The "OEE Database", in the first stage of its development, regroups data under five sections: "Macrofinancial Data", "Data on investors", "Saving products", "Data on intermediation" and "Tax Systems". The aim of the OEE is not, apart from a few exceptions, to be a producer of primary statistical information. It conceives its task more as a catalyst and "collector" of data from various sources. In addition, the OEE aims at explicitating harmonising methods and precising definitions and accounting rules as to make it possible to carry out accurate comparisons between countries. The qualification of the data and of its methodology thus also appears as a fundamental concern.

  Hence, the OEE will tend to present data in exploitable formats (as much as possible Excel) and facilitate access to existing data. (through internet links). As much as possible data will be made available along with methodological notes in Acrobat format. In due course a catalogue of available data will be proposed.

  Note also that timetables for data publication by providers of statistical data are available in the "Publications" section.
- The "Eurostat's Database" category provides with a securised access to Eurostat's New Cronos database. This database containing up-to-date information on European official statistics exceeds however the OEE's investigation field; domains of potential interest have thus been selected (tax information, balance of payments, monetary statistics, national accounts, financial statistics, information on banks, insurers and pension funds -Structural Business Statistics- etc.).
- At last, the website should help improving OEE's internal communication : the "Meetings" subsection of the "News & Meetings" category will inform of dates and places of upcoming meetings of the various bodies of the association and make the minutes of past meetings available (to members only).

Hoping that this website will prove useful and adapted to wishes and expectations, the team of the OEE would be very thankful for any commentaries. Any addition proposals (for example to the "Links" section) will be considered carefully.

FEFSI Mutual Fund Classification Scheme

The following classification is proposed by the Fédération Européenne des Fonds et Sociétés d'Investissement (FEFSI). It is being adopted in most European countries. The general philosophy of this classification is an economic one, rather than a legal one. We think it might be most interesting for economists who conduct research on European Savings.

1. A pan-European Classification Scheme

1.1. Two main criteria

To be appropriate from a pan-European perspective, any classification methodology is likely to be built on two main criteria, which are the following:

- Market exposure (type of asset risk exposure), which splits into
  - Equity
  - Fixed income
  - Money market
  - Balanced

- Geographical exposure (type of currency risk exposure), which splits into
  - Domestic
  - Euroland
  - Europe
  - Global

1.2. Definition of criteria[1]

- **Market exposure**

Equity funds : The fund is permanently exposed to the equity market at a minimum ratio of 66%. *(minimum equity exposure ratio requirement may be higher than 66 % at the country-classification level).* See Appendix 1 : the formula for calculating the equity exposure ratio.

Fixed income fund : The fund is permanently exposed to the bond market. An ancillary exposure to the equity market could be accepted but this should not exceed 10% of the fund assets.

Money market fund : The fund is permanently exposed to the bond and/or the money market. The fund global modified duration should not exceed 1,0. *(when exceeding this limit, the fund should be classified as a « fixed income fund »).* Credit risk is not

[1] *Criteria defined above are the result of an agreement in accordance with the current regulations in each country. They may be reviewed at a later date.*

expected to be significant *(credit rating disclosure may be required at the country-classification level).*

Balanced fund : The fund is invested in different classes of assets and markets. (no limits in % for equity and bond asset classes).

- **Geographical area of investment**

For equity funds : Geographical criteria must be defined according to nationality of the equity issuer. Exposure to equities issued by issuers from other nationalities should remain de minimis.

For fixed income fund : Geographical criteria must be defined according to currency exposure. Exposure to other currencies should be de minimis.

For money market fund : Geographical criteria must be defined according to currency exposure. There should be no exposure to other currencies.

For balanced fund : Geographical criteria must be defined according to the nationality of the issuer for equities and to the global currency exposure for bonds. Exposure to other currencies should be de minimis.

Note : *From the euro conversion date, the domestic money market and fixed income funds categories no longer exist for the « in » currencies ; but information on these prior categories must be kept for the purpose of performance comparisons on periods including prior to conversion date history.*

1.3. Type of funds not covered by the present classification scheme

Funds for which a classification in the four asset type categories is impossible should be listed separately. At this stage, the FEFSI Mutual Fund Classification Scheme does not especially cover:

- Venture capital funds, Private Equities funds
- Future funds
- Real estate funds
- Closed ended funds
- Guaranteed funds (if not correctly classified in the present classification scheme)
- Other dedicated funds (if not correctly classified in the present classification scheme)...

2. Detailed classifications, matching local or specific requirements

Other criteria are expected to be used by national funds associations and/or performance measurement and rankings providers for building detailed classifications.

FEFSI strongly recommends that any detailed classification at the country level be designed to allow aggregation on the pan-European classification scheme's criteria.

Example 1: more details on the geographical criteria

(a) Equity Funds

- each individual country
- Euro-land
- Europe (and also Europe ex each specific country, such as a Europe ex UK for a UK investor, and a Europe ex Switzerland or France for a Swiss or French investor)
- North America
- Japan
- Far East ex Japan
- Emerging Markets
- Global, i.e. potentially all markets, and potentially Global ex specific markets (ex United States, or maybe ex Euro-land).

These categories could be further subdivided for funds concentrating on particular types of investment

- small cap
- specific industrial sectors
- .....

(b) Fixed income Funds (bonds as well as other fixed income assets)

- Fixed income in particular currencies (pre-in currency, e.g. Italian bonds and money market instruments, or out-currency, e.g. Swiss or UK fixed income instruments)
- Fixed income Euroland
- Fixed income Europe (including in and out currencies)
- Fixed income Dollar
- Fixed income Yen
- Fixed income Emerging Markets
- Fixed income Global

These categories could be further subdivided into

- fixed interest and inflation-linked categories if a material CPI-linked bond market exists,
- shorter or longer modified durations,
- credit risk of issuers (ratings)...

(c) Money market funds (Cash Funds)

Essentially mirroring the fixed income fund currency breakdown

Cash funds may be regarded as subdivision of fixed income funds (there is no minimum to the fixed income funds duration, but there is a maximum to the money market funds duration)

(d) Balanced Funds

Essentially mirroring the equity fund geographical breakdown

Balanced funds may also be split regarding to the level of risk exposure, i.e.
- balanced with equity dominant
- balanced with bond dominant
- balanced without dominant

Example 2 : breakdown on other criteria

Further subdivisions (third level criteria) may be made

(a) Income funds

UK equity funds (and mixed UK equity and fixed income funds) are subdivided into separate categories depending on the income they target/deliver (at present there are three UK equity categories - an income category, a growth category and a growth & income category, but AUTIF is thinking of merging the last two). Non-UK equities tend to have much lower dividend yields and are therefore generally categorised as «growth» type assets.

Thus the main practical consequence of including an income/growth division is that the UK classification system includes more types of UK equity funds, reflecting the greater emphasis placed on equity investment within the UK mutual industry. A similar division seems to apply in other Anglo-Saxon markets (which also tend to place more emphasis on equity investments than currently occurs in many Continental European countries).

These could in practice be treated as subdivisions of other categories shown above, e.g. by splitting the UK equity category into a UK 'equity growth' and a UK 'equity income'.

(b) Geographical diversification with domestic preference

On a third level criteria, two main types of funds may be falling under the general heading:
- Equities, Fixed income or Balanced as viewed from a domestic perspective (which would typically have a higher domestic component)
- Equities, Fixed income or Balanced in a truly global context

Appendix 1

Calculation for the Exposure Ratio to equity market of mutual funds

A) Factors which must be taken into account :

+ valuation of the securities from the market which defines the fund's characteristic)
)
+/- temporary sales or purchases of the same securities)
These operations must be taken into account if they have a significant impact on the exposure)
to the considered market.)
)
+/- physical equivalent of traded futures in the same market) **A**
(after netting across expiration dates))
(number of contracts x unit value x clearing price))
)
+/- underlying equivalent of swaps modifying the exposure to the same market)

B) Factors which must be taken into account if they have a substantial impact on the calculation of the exposure to the market; they will be added to or deducted from the numerator :

- underlying equivalent (delta-equivalent) of the net positions selling calls and buying puts)
in the same market *(Warrants and stock purchase warrants are considered as options).*)
) **B**
+ underlying equivalent (delta-equivalent) of net positions selling puts and buying calls)
in the same market *(Warrants and stock purchase warrants are considered as options).*)

C) Calculation of the exposure ratio :

Exposure Ratio to equity market **R = (A+B) x 100 / total net asset**

Events and Publications

Agenda

- Jul. 04, **Le financement de la croissance par les marchés financiers**, L'Isles d'Abeau, ParisBourse[SBF]SA, EM Lyon, Anvar (http://www.bourse-de-paris.fr/fr/news7/fsg730.htm)
- Jul. 10-11, **Examining the Future of cross border trading & settlement**, London, IIR (http://iir-conferences.com/)
- Jul. 10-11 **Unit-linked Insurance and Pension Products in Europe**, London, IBC (http://www.ibcglobal.com)
- Jul. 11 **Taxation of Collective Investment Schemes**, London, IBC (http://www.ibcglobal.com)
- Sep. 14-15, **L'Europe bancaire et financière après l'euro**, Paris, EUROFI
- Sep. 22 **PensionsWorld's Pan-European Conference**, Amsterdam, (http://www.pensionsworld.co.uk/conferences.htm)
- Sep. 27-28, **Winning Strategies in European Asset Management**, Amsterdam (http://www.stoxx.com/stoxx_ltd/stx_events.html)
- Oct. 17-18, **14th International Conference of Investment Funds**, Luxembourg, FEFSI/ALFI (http://www.alfi.lu)
- Oct. 17-18, **Epargne salariale et stock-options**, Paris, EFE, (http://www.efe.fr/)
- Oct. 17-19, **SiB@nk Techno-Finance**, Paris, DII (http://www.groupemm.com/sibanktf)
- Oct. 17-19, **The European Pensions Market Forum**, Madrid, ICBI (http://www.icbi-uk.com)
- Oct. 24-25, **Derivatives Exhibition**, Zurich, FOW (http://www.fow.com/exhibiti/exhibiti.htm)
- Nov. 20 - 24, **The European Finance Convention, 14th Annual Convention**, Paris (http://www.euroconvention.com)
- Nov. 2-3 **European Pension Funds**, Rome, IMN (http://www.imn.org)
- Dec. 3-6 **Superbowl of indexing**, Phoenix, IMN (http://www.imn.org)
- Mar. 13-14 2001, **Savings and Pensions**, Lyon, Université Claude Bernard - Institut de Science Financière et d'Assurances (http://www.affi.asso.fr/www/index.htm)

News

European harmonisation of savings tax systems :
Presidency conclusions from the Santa Maria Da Feira European Council 19 and 20 June 2000

The European Council made a statement based on a report from the Ecofin Council on the tax package. The Ecofin Council agreement was that a directive on the taxation of savings, which would apply only to non-residents, should be based on the following elements:

– Exchange of information with the view that all citizens resident in a Member State should pay the tax due on all their savings income.

– Until then, Member States should exchange information on savings income with other Member States or operate a withholding tax.
– Adoption by unanimity and implementation of the Directive no later than 31 December 2002.
– When an agreement will have been reached on the content of the Directive and before its adoption, discussion with the United States, Switzerland, Liechtenstein, Monaco, Andorra, San Marino to promote the adoption of equivalent measures. Adoption of the same measures in dependant territories (Channel Islands, Isle of Man, Caribbean)
– When the directive will be implemented, any Member State operating a withholding tax will implement exchange of information no later than seven years after.

The European Council made the following statement:
"
1. All Member States expect a resolution to the outstanding issues below before the Council adopts the Directive.
2. The Representatives of the Governments of the Member States, meeting within the Council, agree that no derogation from the exchange of information requirement shall be granted in enlargement negotiations with accession countries.
3. The Council and the Commission commit themselves to seeking agreement on the substantial content of the Directive, including on the rate of the withholding tax, by the end of the year 2000.
4. The Council states that the reference to unanimity under point 2.c[1] is without prejudice to the outcome of the IGC.
5. The Council notes that Austria and Luxembourg may operate the withholding tax during the transition period. Belgium, Greece and Portugal will inform the Council of their position before the end of the year 2000.
6. Luxembourg considers that the "equivalent measures" as well as the "same measures" referred to in paragraph c/[2] also include the implementation of exchange of information as foreseen in the last sentence of paragraph d/[3].
7. Denmark, France, Finland, Germany, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom expect that the rate of the withholding tax will be at least 20-25 percent, and it is in their view that exchange of information should be introduced within 5 years after the adoption of the directive.
8. The Austrian government accepts the OECD report "Improving Access to Bank information for Tax Purposes" but cannot, at this stage, for constitutional reasons, accept a move to drop banking secrecy for non-residents.

   As the directive will apply only to non-residents, Austria can retain its final withholding tax for residents and its present banking legislation as far as domestic residents are concerned."

The full report can be downloaded at
http://europa.eu.int/council/off/conclu/june2000/june2000_en.pdf.

FESCO favours single European passport for issuers

[1] Concerning the adoption of the directive
[2] Concerning third countries and dependant territories
[3] Concerning exchange of information after the implementation of the directive

On May 10th, the Forum of European Securities Commissions (FESCO) published a consultation paper entitled : « A European passport for issuers ».

The goal of FESCO is to create a European passport for issuers of securities valid in the whole of Europe without having to produce duplicative sets of documentation and to facilitate access of approved documents to all European investors.

In a first step, FESCO proposes to split the prospectus into two parts :
- the « Registration Document », which would contain all general information on the issuer
- the « Securities note » giving details about the securities being issued

If the offering or the listing takes place in the country where the company has its head office or its primary listing, and is then extended to investors of other European countries, both documents would be approved by the issuer's « home authority ». If the offering takes place exclusively outside the home country of the issuer, then the authority of the country where investors are sollicited would approve the Securities Note.

The Registration document might be written in English, with enventually a summary in the language of the country of sollicited investors. The Securities Note would be published in the language of the country of sollicited investors.

FESCO encourages the use of electronic communication facilities such as Internet as a means to circulate those documents.

According to FESCO, the advantages for European investors of the European passport will be to :
« - have various levels of documentation tailored according to their needs …,
- obtain annualy updated documentation on an issuer at any moment and not only when an offering or listing is made,
- have a rapid access to securities offered by other European companies,
- take investment decisions based on information approved by the best placed authorities. »

The complete consultation paper is available on FESCO website : www.europefesco.org

Publications and Conferences

Trends of Italian savings :
The Italian research centers Eurisko and Prometeia have released the fourth edition of their joint annual publication "Osservatorio sui Risparmi delle Famiglie". The report shows that Italian portfolios tended to favour riskier investments in 1999 than previously, with a noticeable increase in the preference for shares.
After describing savings market developments in the context of a rebound of macro-economic growth, this publication compares saving patterns of Italians to those of

other Europans. Italians thus appear less satisfied of their investments than other Europeans. They also appear as less true to their financial intermediaries and making less use of Internet for managing their portfolios.
The third chapter describes the concentration and distribution of financial wealth in Italy according to various socio-demographic et geographic criteria.
The fourth analyses the effects of economic variables on the saving behaviour of various generations of Italian households.
Following chapters analyse implications for financial intermediaries of the transformations of the savings market, and make recommendations on how they should adapt their offer to these changes.
The report (available in Italian only) may be ordered from Prometeia Calcolo (http://www.prometeia.it/mercati/risfam.htm) or from Eurisko (http://www.eurisko.it/).

Real estate investment in Europe :
A conference on European Union's real estate markets was organised on July 3rd in Paris by ONMI (Observatoire National des Marchés Immobiliers). Here a brief description of some of the presentations :

- Tony Key, Research Director at IPD in London drew a comparison of real investment returns across Europe, both at an aggregate level and at individual market sectors level, with special focuses on some specific developments. He finally relativised his conclusion that returns tend to be high in « Outer » Europe, moderate in « Middle » Europe and low in « Core » Europe by quoting that national markets remain distinct and making European sectors' definition difficult.
- M. Lichtenberger of the European Mortgage Federation presented in detail development characteristics of mortgage markets in Europe.
- Two presentations, the first by Patrick de la Morvonnais of BIPE, the second by Anne-Marie Fribourg of the French Housing Ministry, attempted to measure the impact of government subsidies on real estate investment in various European countries.

Notes and presentation documents of the conference may be gathered by e-mail request to info@onmi.org.

Creation of value in a regime of globalised finance :
The Caisse des Dépôts research institute organised in Paris, on Thursday June 21st, a colloquium on the theme « Creation of Value in a Regime of Global Finance »
Four pieces of research were presented and discussed :
- A paper of Constance Phélizon entitled « Creation of Value linked to Public Offerings : Two Empirical Studies of the French Market » analyses productive efficiency of both target and bidder companies after public offerings. A point of this study consists of showing that effects of the offering on productivity vary according to economic sectors. Increases in value of targets after public offerings are only significant in the consumption goods sector.
- A research from Frédéric Lordon on « Creation of Value as Rhetorics and Practice » proposes a sociological approach of the creation of value.
- The study of Daniel Baudru, Stéphanie Lavigne and François Morin, entitled « American Institutional Investors; Logics of Management and Extraction of Value », is based on disaggregated data on managed portfolios. The authors make use of a typology of management types (direct or delegated) and of constraints on management

(either on results or on available means) to analyse the rotation of portfolios and the sectorial allocations of assets.

- Finally, Michel Aglietta proposes an ambitious interpretation of the functioning of « Financial Systems and Ggrowth Regimes ». The author identifies in particular the functioning principles of economies obeying to a bank logic –arguably more favourable to growth- or a financial logic, centered on the maximisation of financial yields.

Papers presented at the colloquium are available at the Caisse des Dépôts, on e-mail request to Isabelle Laudier (isabelle.laudier@dgg.caissedesdepots .fr).

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Support	Chantal Gautron C.Gautron@oee.fr

31 rue de Miromesnil
75008 Paris
Tel : +33-(0)1 43 12 58 00
Fax : +33-(0)1 43 12 58 01