Merrill Lynch Investment Managers

Improving the Financial Industry's Handling of Collective Investment Vehicles

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Removing Barriers is becoming an urgent issue

- Market restructuring
- Open Architecture
- From single product to asset allocation
  - Consolidated reporting
  - Distributor pressures

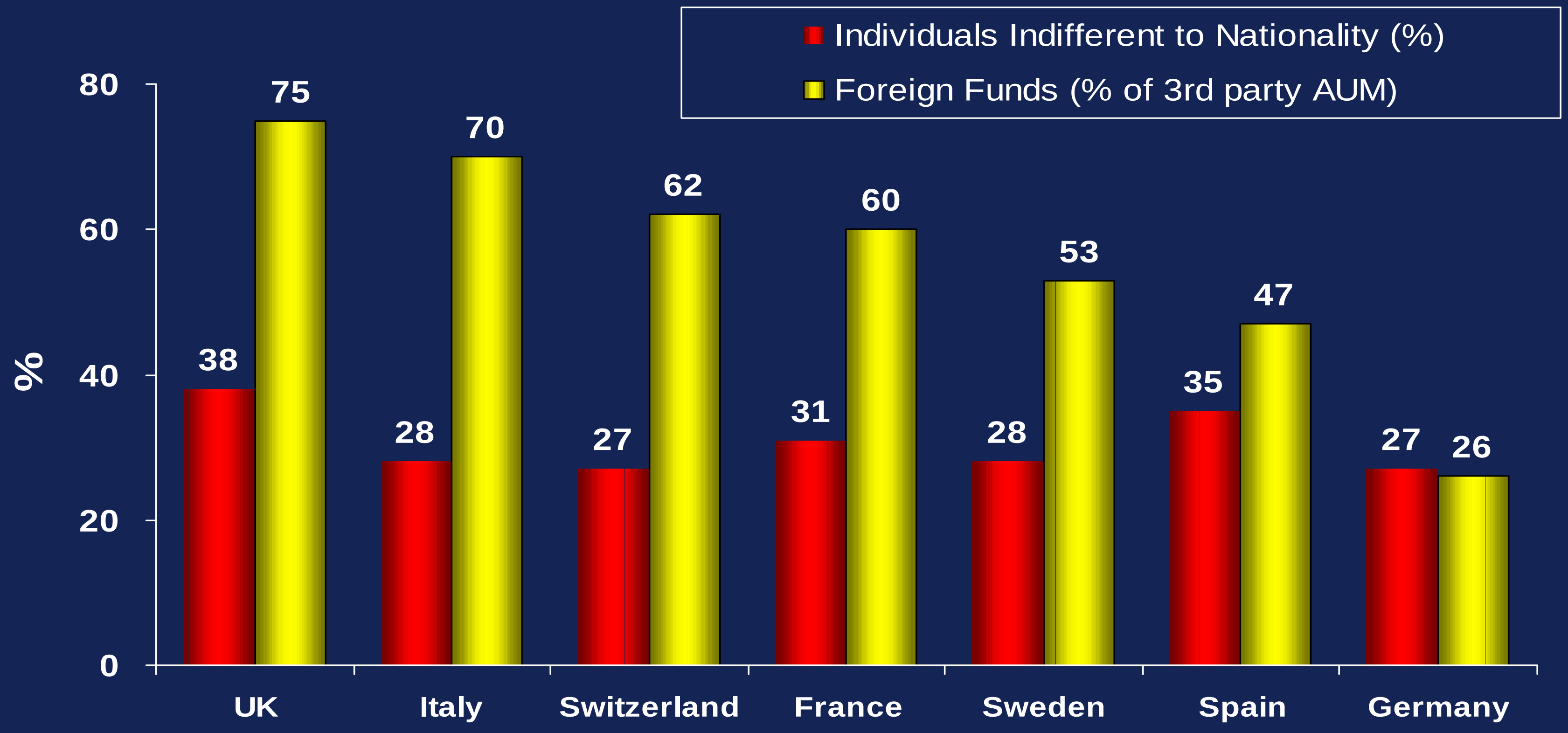
Assessment of Barriers to Entry and Success

Country	Market Size / Accessibility	Culture	Tax	Regulatory	Settlement
Austria	3	2	4	2	4
France	1	3	3	2	3
Germany	1	2	3	3	2
Italy	2	3	2	4	3
Spain	3	3	1	2	2
Sweden	2	2	1	1	2
Switz.	2	2	2	3/4	2
UK	1	2	3/4	1	1

1 = low barriers, 5 = high barriers

Penetration of Foreign Third Party Funds

Foreign funds account for a large proportion of third party AUM, even though most individuals prefer financial institutions from their own country.



Sources: McKinsey, Sector Analysis

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Tax

- Austria
  - Current tax disadvantage for bond funds (being removed)
- Spain
  - Potential tax disadvantage for offshore funds
- UK
  - Complex regime leads to need for onshore fund range
  - Potential changes to reduce barriers

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Italy / Switzerland Regulatory = 3/4

- Italy
  - Slow speed of approval
  - Clock starts again if approval not given
  - Level of detail required to approve
  - Compulsory use of correspondent banks
- Switzerland
  - Strict interpretation of “true to label” requirements

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Three Recommendations

- Implementation of UCITS a huge step forward
- Remaining barriers to entry / success are structural
  - Different tax treatment
  - Different interpretations
- Recommendations, therefore:
  - Co-ordinated and consistent implementation of UCITS III
  - Prospectus requirements codified and same pace
  - Settlement …
  - … efficient, consistent, robust, low cost

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