

BELGIUM

COUNTRY REPORT

1. Economic and Financial Background

Table 1: Key economic and financial indicators		
	2004	2005
Population (million)	10.446	10.430
GDP (EUR billions)	288.089	297.301
Real GDP growth (%)	2.6	1.5
Inflation rate (%)	2.1	2.8
Unemployment rate (%)	8.4	8.4
Stock market capitalization (EUR billions)	201,03	265.331
Stock market capitalization (% of GDP)	69.8	89.2
Bond market capitalization (EUR billions)	313,803	310.106
Bond market capitalization (% of GDP)	108.9	104.3
Household gross savings ratio (%)	12.8	12.4
Household financial wealth (EUR billions)	716.797	774.673
Average per capita financial wealth (EUR)	68,619	74.274

2. Key Trends in Global Market

At year-end 2005, the Belgian funds market totalled EUR 183.81 billion. This is the highest net assets figure ever to be reached in the sector. Over the year 2005 net assets increased by EUR 34.53 billion (i.e. +23.1%). Net sales were responsible for 52% of the increase of net assets of funds distributed in Belgium.

Funds under Belgian law distributed in Belgium grew by 15.1% whilst funds under foreign law commercialised in Belgium grew much more: 38.1%.

Table 2: Net assets by the fund industry in Belgium					
(EUR billions)					
	2001	2002	2003	2004	2005
Home-domiciled UCITS*	86.79	76.78	83.48	92.68	106.25
Home-domiciled non-UCITS	3.10	3.27	3.84	4.36	5.42
Funds domiciled abroad and promoted by national providers	53.81	47.52	49.14	52.24	72.14
Total AuM	143.70	127.57	136.46	149.28	183.81

Funds-of-funds are included

(*) Net assets of nationally domiciled UCITS sold abroad are not included (3.1% of the total volume of the investment funds authorised under Belgian law).

At the end of December 2005, the investment funds under Belgian law distributed in Belgium represented a net asset value of EUR 111.67 billion (funds-of-funds included). Their market share dropped and represented 60.8% of the total funds market (of Belgian and foreign origin) distributed in Belgium (as compared to 65% one year ago and 62.6% in 2001).

The category of Home-domiciled non-UCITS in Belgium contains open-ended and closed-ended real estate funds as well as Private equity funds. Securitisation funds, which legally are also considered as mutual funds are not included in total assets under management.

Table 3: Net sales of investment funds in Belgium					
(EUR billions)					
	2001	2002	2003	2004	2005
Home-domiciled UCITS*	11,90	4,05	2,24	5,29	6,14
Home-domiciled non-UCITS	0,13	0,13	0,28	0,12	0,11
Foreign domiciled funds promoted by national providers in your country	2,96	-0,65	0,66	0,85	11,78
Total net sales	14,99	3,53	3,18	6,26	18,01
Foreign-domiciled funds promoted by foreign providers in your country					

Funds-of-funds are included

(*) Net sales of nationally domiciled UCITS sold abroad are not included.

In 2005, net sales (subscriptions minus redemptions) amounted to EUR 18.01 billion (compared to EUR 6.26 billion in 2004 and to EUR 14.99 billion in 2000), mainly attributable to the category of funds under foreign law distributed in Belgium (EUR 11.78 billion). Before 2005, net sales of funds under Belgian law were always higher than those of funds under foreign law.

3. Key Trends in UCITS Market

Table 4: UCITS assets by fund type					
(EUR billions)					
	2001	2002	2003	2004	2005
Equity	24.80	15.84	17.62	17.72	22.76
Cap. protected	21.45	24.47	29.30	35.14	37.70
Bond	10.56	10.84	9.56	10.34	11.24
Balanced	18.88	18.51	19.78	21.64	23.36
Money Market	1.29	1.81	1.89	2.04	2.67
Fund of Funds	10.52	6.00	6.03	6.53	12.09
Other	0.03	0.02	0.02	0.02	0.02

Total	87.40	77.49	84.20	93.43	109.84
of which					
➤ Guaranteed	21.45	24.47	29.30	35.14	37.70
➤ ETFs					

UCITS under Belgian law increased by 17.6% in net assets during 2005. The Belgian UCITS industry totalled EUR 109.84 billion at December 2005 compared to EUR 93.43 billion in 2004 and EUR 87.40 billion in 2001. Funds with protection of capital kept on being the most important investment category (34.3 % of total net assets of Belgian funds).

Table 5: Net sales of UCITS by fund type					
(EUR billions)					
	2001	2002	2003	2004	2005
Equity	3.21	0.33	-1.04	-1.40	2.15
Cap. Protected	3.41	2.70	3.93	6.26	0.57
Bond	1.20	-0.14	-0.34	1.09	4.53
Balanced	2.14	1.20	-0.52	-0.79	-1.60
Money Market	0.44	0.53	0.11	0.10	0.73
Fund of Funds	1.78	-0.22	-0.36	0.11	2.41
Other	0.00	0.00	0.00	0.00	0.00
Total	10.40	4.62	2.14	5.26	6.38
of which					
➤ Guaranteed	3.41	2.70	3.93	6.26	0.57
➤ ETFs					

Funds-of-funds are NOT included

The rise in net assets in 2005 is partly due to funds invested either partially or entirely in variable income assets (equity funds, funds with protection of capital, balanced funds and funds-of-funds). The increase in total assets resulted in a market share of 81.8% at 31 December, 2005 (compared to 85.8% in 2004 and 86.6% in 2001).

At the same time, funds invested mainly in fixed income assets (bond funds and money market funds) grew and now account for 18.2% of the market (14.2% in 2004 and 13.4% in 2001).

Net assets of funds of funds doubled, due to “bonds” orientated funds.

In 2005, net sales (subscriptions minus redemptions) amounted to EUR 6.38 billion (compared to EUR 5.26 billion in 2004 and to EUR 10.40 billion in 2001), mainly attributable to the category of bond funds (EUR 4.53 billion). In this segment net inflows were much higher in the first 9 months of 2005 than in the last quarter, due to recent tax measures of the Belgian government. Net sales of funds with protection of capital, of which a great number reached maturity in 2005, showed a significant decline in 2005. Net inflows became positive for equity funds after 2 years of negative numbers.

4. Key Trends in Other Nationally Regulated Funds

Table 6: Assets of other nationally regulated funds					
(EUR billions)					
	2001	2002	2003	2004	2005
Real estate	2.97	3.20	3.76	4.27	5.29
➤ Open-ended funds	0.53	0.54	0.59	0.78	1.21
➤ Closed-ended funds*	2.44	2.66	3.17	3.49	4.08
Alternative management					
➤ Hedge funds					
➤ Funds of hedge funds					
Special funds					
Private equity funds	0.13	0.07	0.08	0.09	0.14
Total	3.10	3.27	3.84	4.36	5.42

* Market Capitalisation

Belgium knows open-ended as well as closed-ended real estate funds; the 12 closed-ended real estate funds are listed on the 'Euronext Brussels' stock exchange. There are two private equity funds on the Belgian market (closed-end funds listed on 'Euronext Brussels' and investing in unlisted securities and growth companies).

Real estate funds registered an increase of 23.9% whilst private equity funds increased by 52,7% in 2005.

Table 7: Net Sales of other nationally regulated funds					
(EUR billions)					
	2001	2002	2003	2004	2005
Real estate	0,08	0,13	0,28	0,12	0,08
Alternative management					
➤ Hedge funds					
➤ Funds of hedge funds					
Special funds					
Private equity funds	0,05	-	-	-	0,03
Total	0,13	0,13	0,28	0,12	0,11

Net sales of the group of other nationally regulated funds in Belgium are negligible compared to those of UCITS. Performance was the main factor for the rise of their net assets.

5. Trends in Number of Funds

Table 8: Number of funds					
	2001	2002	2003	2004	2005
Home-domiciled UCITS					
➤ Funds	134	134	132	138	140
➤ Units (*)	1911	1953	1215	1336	1451
➤ Classes					1747
Home-domiciled non-UCITS					
➤ Funds	23	23	23	22	18
➤ Units	40	34	37	36	30
Foreign funds registered for sales					
➤ By national promoters	274	264	267	245	216
➤ By foreign promoters					
Fund Launches	33	29	33	27	30
Fund Liquidations					
Fund Mergers & acquisitions	15	3	2	0	0

Sources: Banking, Finance and Insurance Commission (Annual report 2005), BEAMA
 (*) from 2003 on: only actively commercialised Units.

The total number of funds under Belgian law stagnated in 2005. The number of Units however increased by 7.9% in 2005 against 10% in 2004. We distinguish 2 classes of Units within funds under Belgian law: capitalisation shares and distribution shares.

The number of foreign funds registered for sales in Belgium showed a decline.

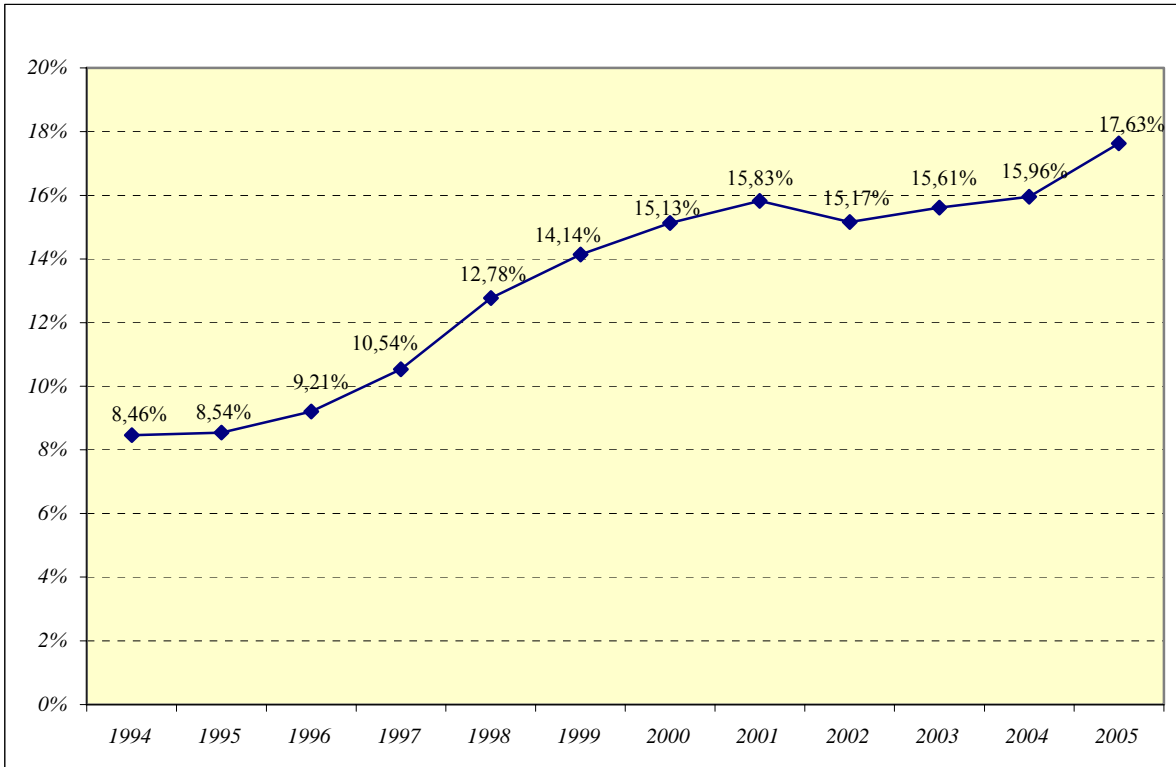
6. Household savings allocation

The table shows the financial assets held by individuals in billions of euros. The assets covered are currency and deposits, fixed-interest securities, shares and other equity, mutual funds shares, insurance technical reserves, other and statistical adjustments (sources: NBB / Belgostat / BEAMA). Data on Non financial assets are not officially available.

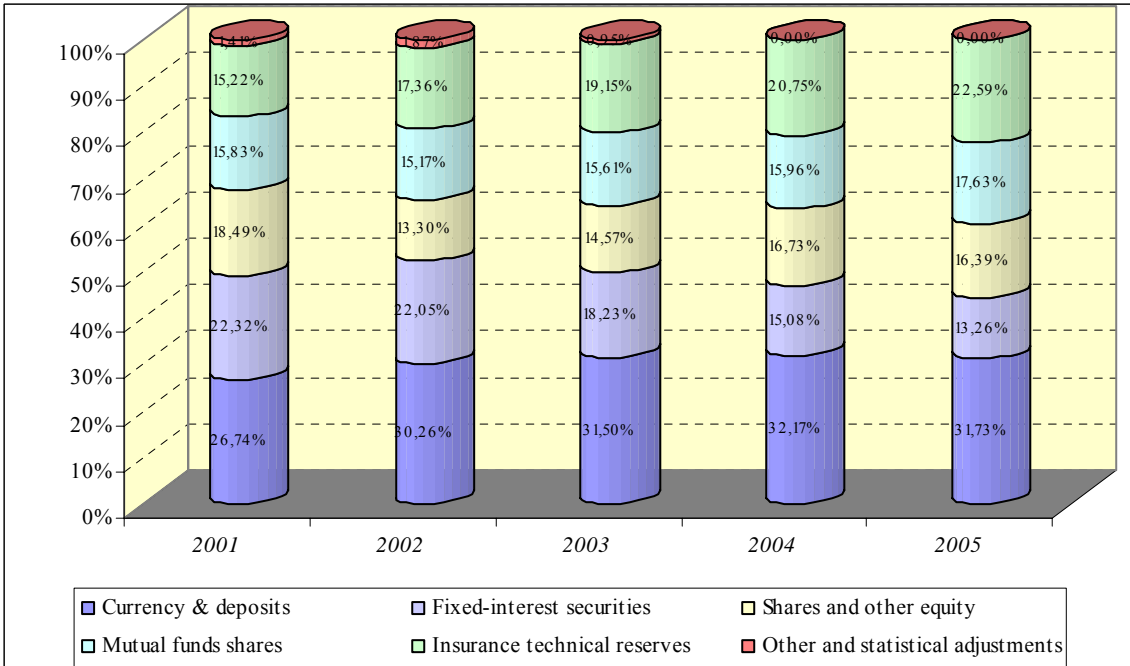
Table 9: Main assets of households (EUR billions)					
	2001	2002	2003	2004	2005
Currency & Deposits	192.89	200.93	213.92	230.56	245.81
Fixed-Interest securities	161.02	146.40	123.83	108.06	102.73
Shares and other equity	133.37	88.34	98.93	119.90	126.95
Insurance technical reserves	109.80	115.25	130.03	148.75	175.02
Investment funds	114.19	100.71	106.02	114.40	136.60
➤ Direct ownership					
➤ Via life ins. policies					
Other and statistical adjustments	10.16	12.42	6.42	-4.88	-12.43
Total financial assets	721.43	664.06	679.16	716.80	774.67
Non financial assets					

Total net wealth

The graph below shows the marketshare of mutual funds in financial savings of households in Belgium:



In Belgium, the market share of mutual funds in financial savings by private customers has been going up from 9 % up to more than 17 % of their total assets these last 10 years. In 2002, there was a drop due the bad performance of the Stock Exchange.



Mutual funds occupied an increasingly important place in private financial savings in Belgium during the 2001 – 2005 period. However, the volume of savings in the form of currency & deposits and insurance instruments is still bigger. (Sources: NBB, Belgostat, BEAMA)

Except for the year 2002, the annual increase of mutual funds held by private customers lay above that of the total financial assets held by private customers. 2002 was a difficult year for the sector of mutual funds with downward stock exchange quotations having a big impact on the value of the underlying securities in the portfolios.

In last 2 years, the annual growth of mutual funds held by private customers lay above that of currency and deposits held by private customers.

Except for the year 2002, the annual growth figure of mutual funds held by private customers was bigger than that of fixed-interest securities held by private customers.

Except for 2003 and 2004, the annual growth of mutual funds held by private customers lay above the annual growth figure of shares and other equity held by private customers. The fluctuations are the highest as for the rise and fall of shares and other equity held in possession.

During the 2001 – 2005 period, the evolution of the annual growth of insurance technical reserves was very stable and the corresponding figure lay above that of mutual funds between 2001 and 2004.

The tabel shows the formation of financial assets held by individuals in millions of euros. The assets covered are currency and deposits, fixed-interest securities, shares and other equity, mutual funds shares, insurance technical reserves, other and statistical adjustments (sources: NBB / Belgostat / BEAMA).

Table 10: Net asset acquisition by households					
(EUR millions)					
	2001	2002	2003	2004	2005
Currency & Deposits	9.37	10.33	17.03	16.39	11.87
Fixed-Interest securities	-0.62	-10.17	-16.47	-14.09	-7.91
Shares and other equity	-1.73	-1.37	0.01	4.23	-3.05
Insurance technical reserves	13.24	12.78	16.47	16.70	20.87
Investment funds	11.05	5.60	6.94	5.06	9.62
Other and statistical adjustments	-13.42	3.15	-2.68	-6.90	-7.59
Total financial assets	17.89	20.32	21.29	21.38	23.82

7. Regulatory and taxation issues

Taxation:

Taxation of Savings Directive

On July 8, 2005, the Administration for corporate and revenue taxation published its circular, which is a comment on the Law of May 17, 2004 transposing into Belgian law Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments, and

modifying the 1992 Income Tax Code as for withholding tax on income. BEAMA was in charge of editing the chapter on undertakings for collective investment.

At the request of BEAMA, the Belgian tax administration has given some additional explanation about the calculation of TIS (Taxable Income per Share) and TID (Taxable Income per Distribution) as well as for the definition of the tax base in case of realisation of capital gains on shares from unit trusts.

BEAMA is currently looking into the problem of taxation in case of mergers between funds as well as into the operational problems within the framework of the TIS history.

European questionnaire:

BEAMA has drawn up a questionnaire in order to see how the European Savings Directive is being transposed and implemented in the different Member States. This questionnaire has been forwarded by the European Fund and Asset Management Association (EFAMA) to its members.

The points of view concerning the application of the European Savings Directive on the Belgian sector of undertakings for collective investment have been made public.

Taxation of undertakings for collective investment which invest more than 40% in fixed income assets

The Programme Law of December 27, 2005 (*Moniteur belge* of December 30, 2005) stipulates that a 15% withholding tax on income will be imposed on bond funds and funds which invest more than 40% in fixed income assets. This runs parallel with the European Savings Directive (harmonised undertakings for collective investment (= according to the European Directive), > 40 % bonds, grandfathering clause, taxation of the interest part, taxation of private investors only). The consequence of this is that the investor unexpectedly is confronted with the exit tax.

There are a lot of questions and there have been negotiations with the Personal Staff of the Minister of Finance about several aspects of the implementation of the new tax (among other things about the payment, the interest part, the modification of the bye-laws, ...).

Already now, the Law offers the possibility of extending its scope.

UCITS III:

Circular on selfmanaged undertakings for collective investment

The circular on selfmanaged undertakings for collective investment was published on the website of the Belgian supervisory authority, i.e. the Banking, Finance and Insurance Commission, at the end of March 2006.

The new model of undertaking for collective investment with autonomous management is explained in this circular on the basis of the legal conditions (art. 40 of the Law of July 20, 2004).

(Simplified) Prospectus

Since the publication of the Belgian UCITS legislation in March 2005, UCIs had 9 months to adapt their (simplified) prospectuses to the new regulations.

Organisation

A UCI may choose to take care of the management all by itself and possibly entrust some tasks to an other body or it may appoint a UCI management company.
At present, 5 UCI Management Companies under Belgian law are registered.

Other regulatory issues:

Securities Lending

The Royal Decree on securities lending by specific undertakings for collective investment was published in the *Moniteur belge* on March 10, 2006 and allows undertakings for collective investment to be active in the field of securities lending in exchange of collateral.

Directive concerning the prospectus

The Directive concerning the prospectus (2003/71/EC) is aimed at harmonising the conditions for drawing up, approving and dispatching the prospectus to be published when securities are offered to the public or allowed for trading on a regulated market. This Directive applies to all securities, except the parts of collective investment schemes with variable capital. For this category of undertakings for collective investment, the conditions governing the prospectus are laid down in the Law of July 20, 2004 (= transposition of the UCITS III Directive). However, some of the articles of the Law on the undertakings for collective investment must be changed as a consequence of the transposition of the Directive.

In the meantime, the draft law has already been approved in Parliament and has been sent to the Senate.

8. Investment management governance

Code of Conduct

At the beginning of 2006, the Association started developing a new code of conduct for Asset Managers. The EFAMA Code of Conduct will be used as a basis for this.

Corporate Governance

As an institutional investor in and as a shareholder of listed companies, the sector of undertakings for collective investment closely follows the initiatives which are taken in the field of corporate governance. On January 10, 2006, the European Commission introduced a proposal for a Directive providing minimum standards which should make it easier for shareholders of listed companies to exercise their rights on a cross-border level. In the course of 2005, BEAMA took part in both public consultations which preceded this proposal. Its detailed comment has been sent to the European Commission.

9. Fund Standards and Distribution

Recommendation table of risks prospectus

Together with the Belgian supervisory authority, i.e. the Banking, Finance and Insurance Commission, BEAMA has drawn up a recommendation aimed at enhancing the consistency in the description of the risks, between the different managers, in the (simplified) prospectus.

The circular of the the Belgian supervisory authority, i.e. the Banking, Finance and Insurance Commission contains a table with some 12 types of risks to be assessed for the portfolio concerned. The recommendation aims at laying down a risk degree ('none', 'low', medium' or 'high') for each of these risk types on the basis of an objective parameter.

There are also a number of recommendations as for the description of the investor's risk profile.

10. Development in fund based pension products

IORP Directive:

The IORP Directive is part of the Financial Services Action plan and completes the internal market as far as institutions providing occupational pensions are concerned. Whilst recognising that Member States' systems for occupational pensions differ widely, the Directive provides harmonised rules for prudential supervision and capital requirements for these institutions. The Directive also lays down rules for the cross-border provision of occupational pensions.

In March 2005, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) issued its fifth consultation paper which is related to a Draft Protocol on the collaboration of the supervisory authorities in the application of the Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision (IORP-Directive).

In view of the implementation of the IORP Directive in the EU Member States the draft Protocol provides a framework for the cooperation of the relevant supervisory authorities in relation to the supervision of IORPs that operate cross border.

In different contacts, BEAMA has always been in favour of developing the "SIVAV Pension" (SIPCAV) as a new instrument in the second pillar for complementary pensions (retirement funds).

The Belgian Pension fund Association examined the compatibility of WAP ("Wet Aanvullende Pensioenen") and the European Directive and on the adaptations.

The Commission has decided to send reasoned opinions to Belgium for not having written Directive 2003/41/EC into Belgian law. The Directive should have been transposed by 23 September 2005. The reasoned opinions follow letters of formal notice sent in December 2005.

At the moment, discussions concerning the transposition of the IORP-Directive into Belgian law are still going on at the level of the Belgian government. Final texts of the project of law are not available yet and various articles are still under revision.

Pension-saving funds:

The Belgian pension-saving fund (3rd pillar), created in 1986 by a royal decree, is a specific open-ended investment fund under Belgian law.

There are special tax advantages: tax credit (at a special rate ranging between 30 % and 40 %) on the annual investment. This annual investment is limited per person per fiscal year. For 2005 this amount has been determined on EUR 780 (EUR 620 for 2004).

At the end of December 2005, the 12 pension-saving funds represent EUR 10.32 billion, i.e. 9% of the total volume of UCIs under Belgian law and 5.6% of the total market of UCIs under Belgian and foreign law commercialised in Belgium.

Pension reserves:

Amount of retirement savings invested in fund based products (see Table below)

Pension Reserves (EUR billions)	
1st pillar	n.a.
2nd pillar	
Pension funds (*)	10.64
Group insurance (*)	29.07
TOTAL	39.71
3rd pillar	
Life insurance (*)	46.29
Pension savings funds (**)	10.32
TOTAL	56.61

(*) as of end 2003

(**) as of end 2005

11. Other activities of the association

The website of the Association may be consulted at www.beama.be.

BEAMA issues on a quarterly basis statistics on the Belgian market of Belgian and foreign UCIs commercialised in Belgium.

On a regular basis BEAMA organises seminars as well as workshops for its members in collaboration with FEBELFIN, the Belgian Finance Federation (e.g. selfmanaged funds, taxation issues).