Assises Européennes de la Gestion

European Congress of Asset Management

SPEECH13 October 2016

Vice President keynote speech "Building a deeper single market for asset managers"

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Keynote Speech at the European Asset Management Congress

13 October 2016, Paris

Ladies and Gentlemen,

I am pleased to be in Paris at the first European Asset Management Congress and to discuss your industry's work which is so important for investment in Europe. As we focus on strengthening Europe's recovery, on supporting growth, you have an important role to play. Today, I would like to explain our approach to maintaining a dynamic, competitive and safe asset management sector in the European Union. To touch on the problems we have identified, often thanks to your input. And to mention some of the actions we are considering to knock down barriers to cross border investment, promote competition and give consumers more protection, information and choice.

The EU asset management industry is a success story of which Europe can be proud. UCITS funds are a global brand. In 2016 there were more than 30 000 of them with 8 trillion euros of assets under management, and there were 27 000 AIFs managing over 5 trillion euros of assets.

France has made a particularly strong contribution. Home to over 11 000 funds and over 600 asset managers - four of which are ranked in the world's top 20 – it is a leading player. France was the first European country to authorise European Long Term Investment Funds (ELTIFs) to increase the capital available for long-term investment. And it moved fast to establish an attractive and competitive environment for Fintech.

Yet we believe there remains untapped potential for asset managers in the Single Market. Unleashing this potential is part of our work to build a Capital Markets Union. We want to knock down barriers to investment, ensure companies can sell into bigger markets, and enable consumers to find the products that are right for them wherever they are in the EU.

Only 40% of AIFs are marketed across borders. One third of UCITS marketed across borders are only sold in one other country. And another third is only sold to a maximum of four other countries. We might be missing out on the economies of scale from which our funds should benefit in the single market. While the average European mutual fund is valued at approximately 200 million euros, its counterparts in the US are almost seven times as large. This creates challenges for fund costs and returns.

This summer we launched a consultation to gather more detail on the barriers to a genuine single market. Your contributions will shape follow-up actions to improve the existing European passport regime for investment funds. The consultation closed on Sunday and we are now busy analysing your responses. We are considering all options - including making legislative changes to the AIFMD and UCITS legislation.

Let me say a bit more about some of the areas upon which we have sought your views.

Formal regulatory fees in each member state are a clear barrier. The fees and level of guidance vary considerably. There is no central register of where and to whom funds can be marketed. Finding out what fees are and how they should be paid takes longer and is more expensive than it should be. Different tax regimes and reporting requirements in 28 different formats complicate things further, as do antiquated administrative requirements. In this digital age, is it really necessary for UCITS managers who want to market their products abroad to appoint a paying agent to collect fees and be a point of contact?

Domestic marketing rules can be very different across European countries, especially for products aimed at retail investors. Even when the rules are similar, they are enforced in different ways and to different schedules. In spite of the EU marketing passport, an asset manager based in France who wants to market products across Europe has to comply with 27 other marketing regimes. This is time consuming and legal fees are expensive. Marketing materials often need to be checked by national authorities, which can be an open ended lengthy process.

In these circumstances, we understand that managers respond by marketing their products in fewer countries. But it is suboptimal for businesses and for consumers in a single market, even if we must ensure consumers in local markets are adequately protected.

As part of the Capital Markets Unions, the European Commission is also working to strengthen Europe's venture capital markets to increase scale, diversity and choice. We are looking at how we can use public money to attract more private investment with a pan European Venture Capital Funds-of-Funds. And in July, we made a proposal to reform to the European Venture Capital and European Social Entrepreneurship funds. This would open them up to larger asset managers and broaden the range of eligible investments.

The proposal is now with national governments in the Council of Ministers and the European Parliament. The onus is on them to get this agreed by the end of the year, and help high potential businesses get the financing they need to grow and create jobs in Europe.

We want the Capital Markets Union to provide more options for people who want to save for their retirement. As a first step, we have launched a public consultation. We will use it to determine whether it is possible to create a competitive and simple cross border personal pension product. We will look carefully at the responses we received and set out how we move forward in this area. We are keeping all options open – including proposing new legislation

Across the board, the European Commission is committed to reviewing all existing financial services legislation to check it is working as intended and is as growth friendly as possible. Our work to improve the environment for asset managers will draw on our analysis of your responses to the Call for Evidence. We will publish a detailed assessment by the end of the year.

The main thrust of our overall analysis is clear. We need to consider adjustments to increase funding to the wider economy. We need to look at whether we can make legislation more proportionate. And see whether the compliance burden can be reduced for businesses. Let me say a little more about some of the areas relevant to the asset management industry.

The Call for Evidence highlighted an inconsistency between legislation governing UCITS and the European Markets Infrastructure Regulation (EMIR) when it comes to UCITS funds' exposure limits to investments in derivatives. UCITS legislation predates EMIR and does not make the distinction between derivatives which go through central clearing and those which do not. UCITS funds' investments in less risky cleared derivatives are unduly limited – which goes against EMIR's objectives. We also understand that not being able to use cash proceeds from repo transactions to post margins for cleared derivative transactions is felt to be too rigid an approach. We have asked ESMA to look into these concerns further.

We are also looking very carefully at whether a more proportionate approach could be taken to rules governing remuneration for asset managers. At the moment, rules differ across EU legislation, under the CRR, UCITS, AIFMD and MiFID. This makes compliance difficult and the European Commission is committed trying to streamline requirements when we review the relevant legislation.

We want build on Commissioner Jourova's report and the European Banking Authority's analysis to take a more proportionate approach. As a first step, we plan to adjust the Capital Requirements Regulation and its sister directive in this area.

None of this makes us any less committed to completing gaps in our regulatory architecture. Money Market Funds is a good example of legislation we want to see adopted and we are hopeful an agreement can be reached by the end of the year.Our goal is to strike the balance between making MMFs more resilient while securing their role in financing Europe's economy.

Work continues to determine whether the European Union should allow fund managers from a number of countries outside the EU to operate here under AIFMD rules. We have now received comprehensive advice from ESMA and are giving it careful consideration. Before granting passports to fund managers in these countries we need to assess the entire set of criteria laid down in the AIFMD. In the meantime, a number of national private placement regimes remain open to third country managers and our feedback from operators is that these are working reasonably well.

The European Commission is also fully engaged in the work of the Financial Stability Board to identify structural vulnerabilities in the asset management sector that could pose a systemic risk. We are looking forward to this work being completed by the end of the year. But compared to other jurisdictions, European asset managers are already subject to very detailed regulatory requirements to mitigate systemic risk. This is the case for both UCITS and AIFs. If weaknesses remain we will work to address them. But we want to keep the regulatory burden to a minimum.

In recent years, much has been done to strengthen consumer protection. To increase transparency and give consumers the information and certainty they need to invest. Legislation on Packaged Retail and Insurance Based Investment products was part of this push. Its goal was to enable investors to compare products more easily through Key Information Documents, or KIDs. It would introduce common standards for presenting information for a wide range of investment products.

The European Parliament last month expressed its dissatisfaction with the Delegated Regulation containing PRIIPS regulatory technical standards. The European Commission has carefully assessed the European Parliament's resolution on the subject. We are working with the European Supervisory Authorities to address these concerns and ensure that the RTS can be re-proposed before the end of the year.

To get a clearer picture on consumer investment products across the board, we're taking forward a comprehensive assessment of retail investment markets. We want to look at the different stages in the development, advice, marketing and sale of these products. And identify ways to improve outcomes for consumers.

We will also ask the ESAs to look at the transparency of long term retail investment and pension products, and to perform an analysis of their actual net performance and fees. Returns on retail investment products and pensions can be heavily influenced by the fees levied by asset managers and intermediaries. The right data on the net performance and fees of the most commonly sold products is important. We need it to ensure more competition and better service for consumers.

Our approach to the asset management sector is one that fits into a broader agenda. It is the agenda of a European Commission determined to take the single market a step further. A European Commission that believes this is the best way to improve the investment environment, increase the European economy's competitiveness and deliver the best possible returns for investors and savers. European asset managers have valuable expertise. We have the opportunity to build on this, to unleash the single market's full potential and support growth in Europe. That is an opportunity, which with your help, we would like to seize.