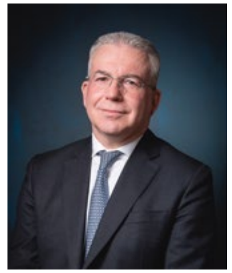
EUROPE 2030: WORKING TOGETHER TO MAKE THE VITAL TRANSITIONS A SUCCESS

AFG

Investing in
tomorrow together

CONTENTS

INTERVIEW WITH Philippe Setbon, Chair of the AFG[1]



Why look ahead to 2030?
Philippe Setbon: Because the Europe of 2030 is being built today. Faced with unprecedented challenges and changes, Europe must now take the right decisions to succeed in its ecological, demographic and digital transitions. This is a very important responsibility, particularly towards the younger generations. As asset managers, we have the means to contribute to these major social goals.

Where to start?
P. S.: Above all, we must take a step back and craft regulations with a clear strategy and a shared objective: to build a thriving economy that meets the aspirations of European citizens. We need to be able to rely on robust European companies and financial organisations to fund the investments required for the transitions; and therefore, ensure their competitiveness in a highly competitive global landscape. We are not there yet. In 15 years, European asset management's share of the global market has halved.

How to finance the huge investment needs of the transitions between now and 2030?
P. S.: Everyone has a part to play. Public investment alone is not enough. We will need to rely on private-sector resources as well. Europeans have a large amount of financial savings, but little of it is allocated to financing transitions, due to a lack of long-term savings and shareholder culture. Regulations must support efforts to channel private savings towards companies under transformation.

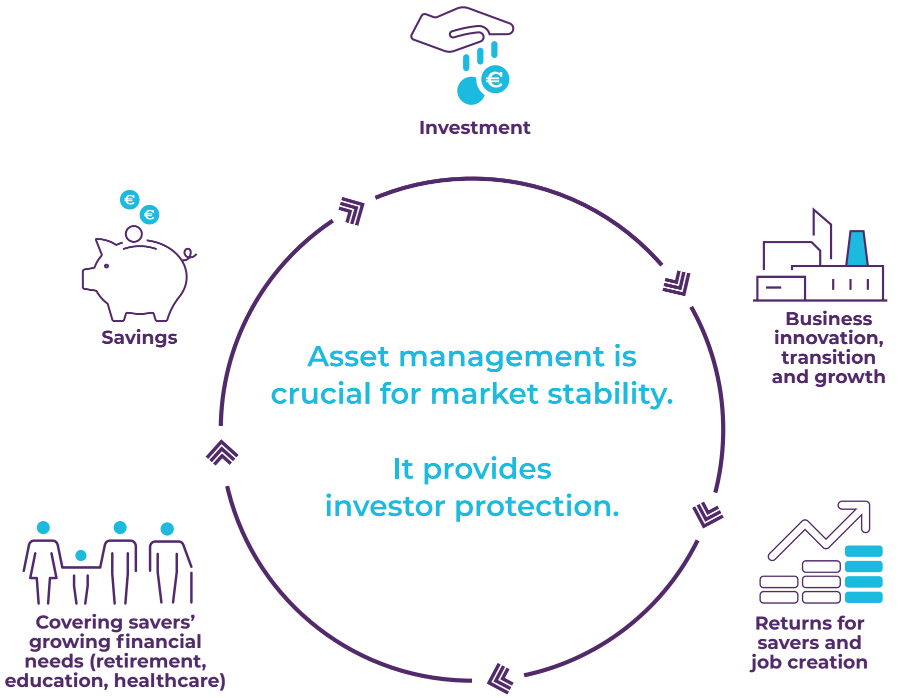
How can these savings be channelled effectively?
P. S.: All companies are considering their transition. For investors, the challenge is to identify companies that are making concrete commitments. Asset managers need reliable, accessible, and affordable information, which is currently lacking. The new sustainability reporting standards will help address this. Regulations must be put together in a co-ordinated and clear manner, to define what is sustainable and direct financial flows towards the most promising transition projects.

Will this benefit savers?
P. S.: The role of asset managers is to add value for their clients, to grow their savings over the long term. Financing the companies that will perform the best in the future because they have successfully achieved their transition is a win-win outcome. We need to contribute to collective efforts to improve savers' financial education, so that we are prepared for 2030.

(1) French asset management association.

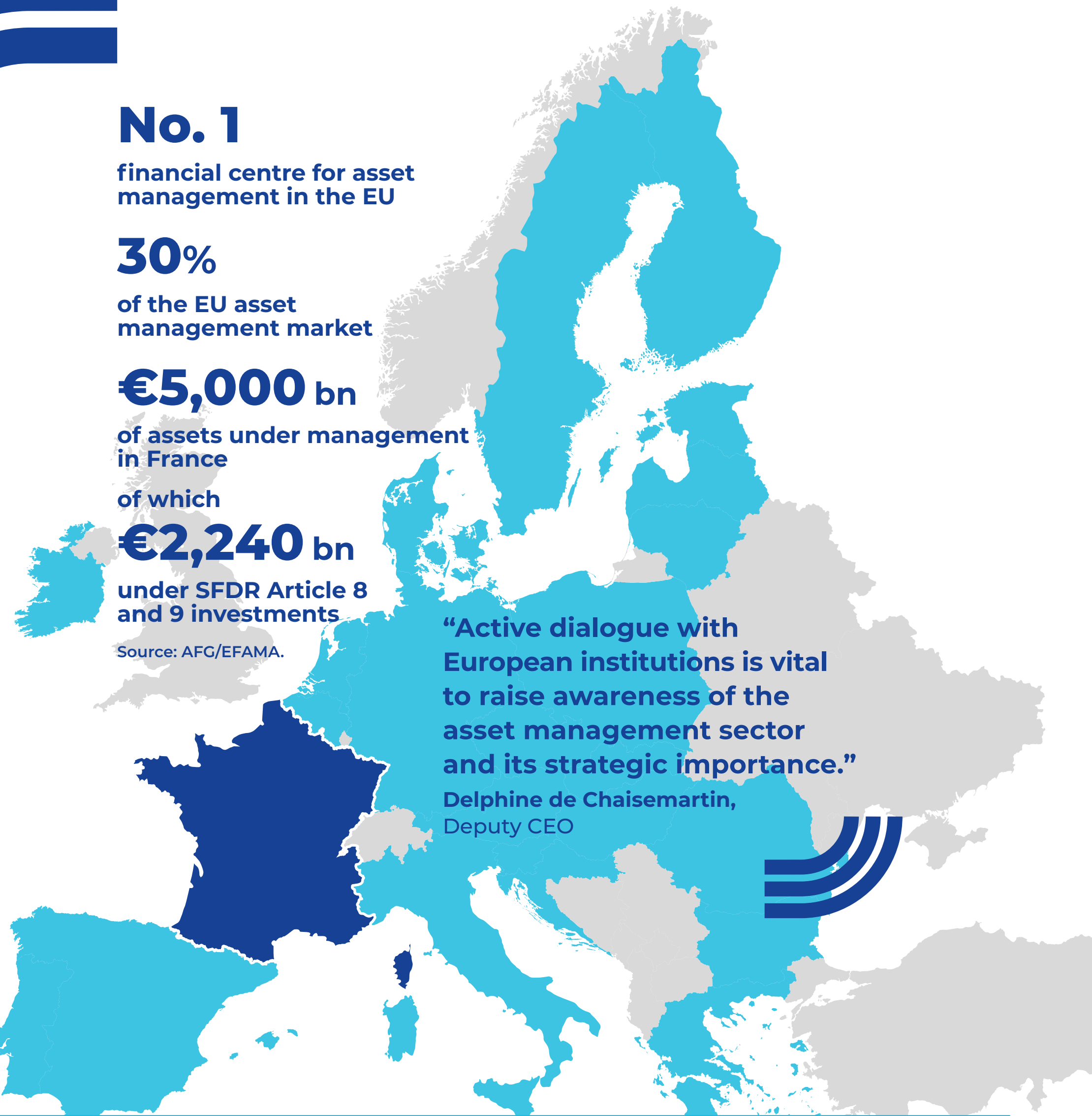
We are the AFG, we represent the French asset management industry

With more than 700 asset management companies, including 4 in the world's top 25, the French asset management industry has a leading position in Europe. The diversity of the products and management styles it offers is unique in the EU. It provides liquidity as well as short- and long-term financing – both debt and equity – to both private and public sectors.



"Asset management lies at the heart of a virtuous circle. Asset managers invest private savings in the real economy. They help companies transition towards lower-carbon, more sustainable growth models. They assist individuals by managing their savings, through diversified investments that deliver attractive returns."

Laure Delahousse, CEO



No. 1
financial centre for asset management in the EU

30%
of the EU asset management market

€5,000 bn
of assets under management in France

of which

€2,240 bn
under SFDR Article 8 and 9 investments

Source: AFG/EFAMA.

"Active dialogue with European institutions is vital to raise awareness of the asset management sector and its strategic importance."

Delphine de Chaisemartin, Deputy CEO

AFG is a key partner of the French and European institutions

The AFG represents the **largest asset management industry** in the EU and is considered a trailblazer. Its portfolio and risk management rules have inspired certain provisions of European directives and regulations (UCITS, MMFR, SFDR) and it continues to set the standard in terms of European best practice. The guidelines and Codes of conduct created with its members improve the transparency, governance and ethics of the industry.

2030 – the EU economy is thriving, provided that:

European savings have become a pivotal source of market-based financing for the European economy and its major transitions. Strong measures ensure that European asset managers operate within a clear and competitive regulatory framework, with access to reliable and comparable ESG data, contributing to the achievement of the EU Green Deal objectives.

KEY INITIATIVES

- **A strong European asset management industry: more savings and a longer investment horizon**
- **A coherent sustainable finance framework and an inclusive view of businesses**
- **Access to reliable and comparable ESG data in order to help achieve the objectives of the EU Green Deal**

TODAY

€700 bn
per year needed to fund the green and digital transitions
(Source: ECB)

A shortage of long-term household savings:
90% of GDP in the EU as opposed to
310% in the United States
(Source: AFME – 2023 data)

Partner of the European growth:
25% of securities (equity and debt) from European issuers held by European asset managers
(Source: EFAMA)

OUR VISION FOR 2030

European savings channelled into the European economy, provided that:

The EU has addressed it shortfall in long-term savings by releasing private capital, crucial at a time of high government debt. With **more individuals saving for retirement** and a **stronger shareholder culture,** European savings are being channelled into the EU capital markets. Proper regulations are encouraging asset managers to invest more **in the EU,** financing infrastructure, sustainable transition, innovation and the business development of both SMEs and large corporations.

Due to a **home bias** – a preference for investing in the local economy when allocating assets – the dynamic European asset management industry has played a significant role in providing a stable source of funding for EU local issuers. **Asset managers' long-term investment strategies** enable investors to take on risk and enjoy high returns. As experts in the European economy, asset managers carefully select the best-performing European companies and projects. The diversified product range they offer also helps ensure stability in the EU financial markets.

Asset management: driving vital transitions

A consistent framework for sustainable finance

The Sustainable Financial Disclosure Regulation (SFDR) review has streamlined and clarified the sustainable finance framework, through:
> **Clear and understandable definitions** in all sustainable finance texts (e.g. the taxonomy)
> **A focus on the social and environmental** aspects of European business models
> **Strong collaboration between European** and national supervisory authorities, ensuring consistency between regulations and co-ordinated timelines for implementing the various directives and regulations.

The Corporate Sustainability Reporting Directive (CSRD) has led to major progress. Asset managers have now access to standardised, auditable, and comparable non-financial data facilitating **informed investment decisions.** It has also enabled them to comply with their own reporting requirements.

Like ESG rating providers, ESG data providers are now subject to **transparency obligations regarding their data sources and processing methods,** which play a pivotal role in investment decisions. These regulations contribute to **combating greenwashing,** as does the full implementation of the European Single Access Point (ESAP) for European companies' financial and sustainability-related information.

An inclusive view

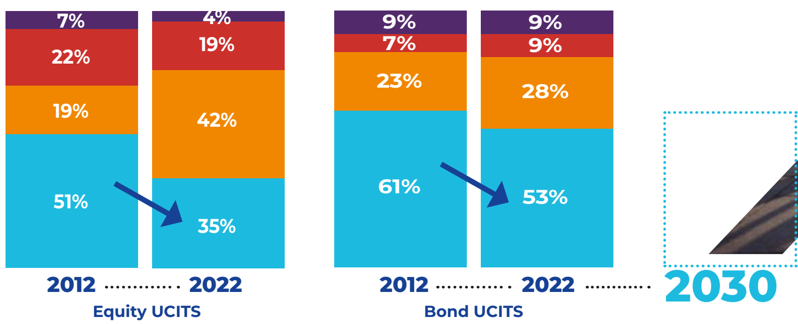
To achieve the objectives of the European Green Deal, **all companies receive support, whether they are already fully sustainable or in transition.** The European institutions have effectively tackled this dual challenge, positioning Europe **as the global leader of the sustainable economy.**

Effective governance

The second Shareholder Rights Directive (SRD2) encourages asset managers to actively participate in promoting good corporate governance within their investee companies, and to cast votes during their general meetings. Effective safeguards have been implemented concerning multiple voting shares (via the Listing Act) to **ensure fair representation of retail shareholders.**

70%
of assets under management in equity and bond French funds are invested in the European economy (Source: ECB/AFG)

A trend that should be mirrored at the European level



Geographical allocation of securities held in EU fund portfolios
(Source: ECB/EFAMA)

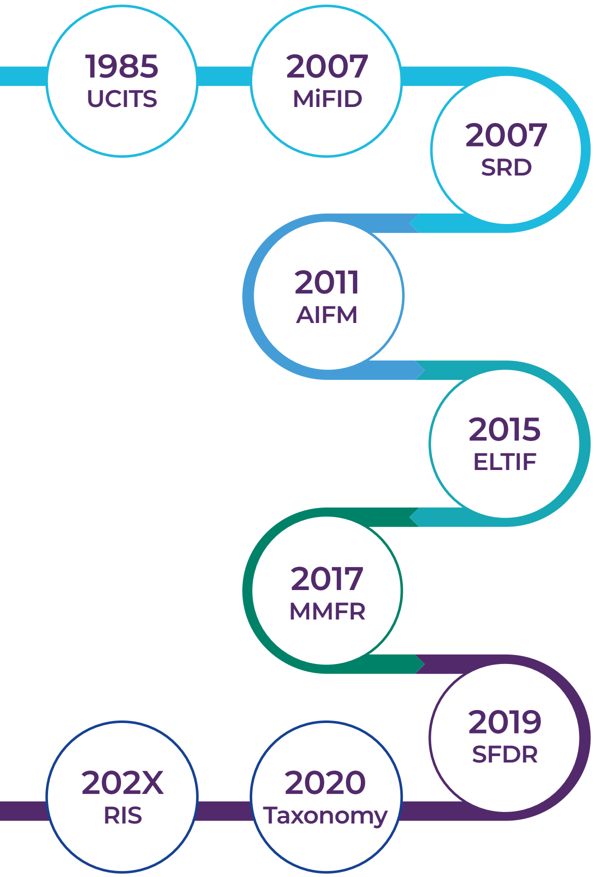
Investment zones
■ Europe ■ United States ■ Asia-Pacific ■ Other countries

2030 – EU citizens have greater financial empowerment and collective strategic independence, provided that:

Regulations have unleashed the potential of asset management; the extensive array of products caters to the diverse needs of European savers; and savers have gained greater financial freedom and confidence due to a secure framework, transparent information and sound advice, through the achievement of several significant milestones.

KEY INITIATIVES

- **A comprehensive range of financial products for individual investors**
- **Financial education that increases the retail investors participation in the EU capital markets and in financing transitions**
- **Accountability for market participants in terms of delivering Value For Money**



TODAY

Savings are a significant source of funding for the European economy:

€50,000 bn of financial savings among individual and institutional investors in the EU

(Source: Eurostat – 2023 data)

There is potential to increase market share:

30% of financial wealth in Europe managed by European asset managers

(Source: EFAMA)

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A broader range of savings products, provided that:

European authorities have laid the foundations for a broader and more diversified range of investments available to retail investors. Alongside popular funds such as UCITS, AIFs and MMFs, other vehicles such as ELTIFs (European Long Term Investment Funds) have unleashed the **potential for individuals to make long-term investments** in real assets, particularly European infrastructure, SMEs and real estate.

The inclusion of these assets in funds benefiting from the European single market passporting rules is broadening savers' investment opportunities to encompass **the entire EU, increasing** awareness about how their savings are used. This is also improving the allocation of savings across the EU and attracting more foreign investors.

Long-term savings solutions managed by asset management companies have also seen increased popularity, through institutional investors (pension funds, life insurance policies), individual savings, employee savings plans, and the growing adoption of employee profit-sharing and incentive plans by companies.

Dynamic product offering benefits everyone

Dynamic developments in the range of investment products benefit **the economy,** particularly by providing new sources of financing for small and medium-sized businesses and infrastructure.

They also benefit **savers,** who can access products that address their investment objectives over all horizons, from realising short-term projects to preparing for retirement. The development of long-term savings products such as the PEPP (Pan European Personal Pension Product) – following work to harmonise marketing rules and tax treatment across the EU – allows European citizens to plan their retirement with confidence. There is now, in each country and across Europe, an optimal system in place, encouraging funded pensions and increasing the proportion of financial wealth invested in equities, alongside pay-as-you-go pension systems.

The diversified range of products helps ensure the **stability of financial markets.** Making portfolios more pan-European diversifies risks and fosters European financial integration.

The European regulatory framework results in greater investor confidence

MiFID, the PRIIPs Regulation, AIFMD and the UCITS Directive mean that savers have clear, accessible information that helps them make decisions and keep track of their portfolios and the associated costs. They can invest in products that suit their investment objectives, risk appetite and sustainability preferences.

The EU's Retail Investment Strategy (RIS) has been successful. The strategy aims to ensure that products deliver Value For Money (VFM) taking into account cost, performance and quality criteria, and this is very helpful for savers. There is accountability at every level in the value chain, **from data providers to distributors.**

On the basis of an internal benchmark carried out by asset managers, European institutions have chosen the "bottom-up" system and **strengthened the funding ecosystem for European businesses,** particularly SMEs.

Finally, maintaining the **commission-based model for advisors** ensures that **high-quality advice is available at an affordable price** to the largest number of savers. Investor protection is now based on a new paradigm that focuses on their real needs and not just on short-term risks.

Financial education and literacy: a priority to skill up

Financial education helps to correct certain types of behavioural bias among savers, which stem from misconceptions regarding the amount of additional capital they will need in retirement and a lack of knowledge regarding risks and returns. It also gives them an understanding of how savings products can help finance responsible and sustainable investments.

2030 – EU regulations aim at strengthening Europe's financial autonomy and competitiveness, provided that:

Market and company data is reliable and affordable; standards are in place to safeguard the EU's digital sovereignty and technology is enhancing product ranges and distribution channels; and convergence in European supervision has created a level playing field for all asset managers, proving the effectiveness of European regulation.

KEY INITIATIVES

- A clear regulatory framework applicable to all, helping the EU to be able to fund its strategic goals
- Liquidity risk management governed by flexible, effective rules
- Innovation supported according to European principles and values

TODAY

Market-based financing is underdeveloped in the EU for non-financial companies:

- **10%** of financing is from the markets in the EU versus **26%** in the United States
(Source: AFME – 2023 data)

- **x2** US equity markets twice the size of EU markets relative to the two zones' respective GDP
(Source: ECB)

Short-term financing in euros is dominated by French funds:

€400 bn of money-market funds domiciled in France, i.e. **25%** of the total among EU money-market funds and **55%** of the total among euro-denominated funds
(Source: AFG/EFAMA)

OUR VISION FOR 2030

Regulation ensures the resilience of the European asset management industry

EU legislation (MMR, UCITS, AIFM, ELTIF) has proven its worth. **European money-market funds are providing short-term liquidity to companies,** regardless of market conditions. Thanks to diverse investment styles (active, passive, discretionary, quantitative etc.) and asset management companies with different sizes (from entrepreneurial companies to European leaders), the European asset management industry is resilient. By making asset managers accountable for managing liquidity risk and liquidity levels by product type, the European authorities have avoided product and investment behaviour standardisation.

Competitiveness is the common thread in the European asset management market

Each new initiative adopted by the European Commission is subject to a **competitiveness test** in order to assess its impact on businesses and their operating environment. Regulation now strengthens the competitiveness of the European asset management industry, and therefore the autonomy of the EU's strategic funding.

European asset managers are providing **a better service at a better price.** Rules governing data providers have resulted in non-European companies adopting better commercial practices and pushed down the cost of data while improving its quality.

Technological progress resulting from AI, blockchain and tokenisation, subject to European rules (MiCA, DORA, IA Act, DLT Pilot Regime), is creating opportunities in terms of asset management process, products and services.

These innovations are responses to the increasing digitalisation of distribution. They also ensure financial stability and investor protection with increasing transparency and fluid processes and better regulatory compliance. **Secure transactions** using distributed ledger technology (DLT) are now effective due to the creation of a central bank digital euro.

Cross-border activities are eased by a system of **European supervision** that is smooth and consistent from one member state to another. Co-ordination between European Supervisory Authorities (ESAs) and National Competent Authorities (NCAs) avoids differences in interpretation and duplication in reporting. Regulation creates a healthy, competitive environment for all asset managers in Europe.

Increasing Europe's strategic autonomy

IN 2030, INVESTING IN EUROPE HAS NEVER BEEN SO ATTRACTIVE.

WORKING TOGETHER TO MAKE THE EUROPE OF 2030 A SUCCESS

In 2030, European asset managers have a solid, consistent regulatory framework. All levels of regulation are properly arranged. New texts are implemented in a realistic manner, giving asset managers time to adapt. Through an improved ability to plan forward, the European Commission sets strategic regulatory priorities and builds a future-facing European framework.

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Proposals for a successful Capital Markets Union (CMU)

Empowering EU citizens, masters of their savings and investments in the EU

Strong support for investment in the EU by promoting European financial savings, especially long-term ones

> **Channeling greater investment towards EU businesses,** particularly SMEs, by deploying long-term savings invested primarily in Europe and backed by appropriate tax incentives.

> **Encouraging Member States to develop retirement savings plan** to broaden the investor base for financing the economy.

> **Creating a company profit-sharing mechanism** at the European level that could feed into these long-term savings plans.

> **Facilitating the portability of savings products from one state to another** through appropriate taxation, defined by each Member State.

Individual investors protected and in control of their savings

> **Enhancing financial education in EU school programs.**

> **Maintaining access to financial advice for all,** regardless of their economic situation.

> **Ensuring compliance with EU rules for services provided online** (regulation of influencers and online platforms).

> **Applying existing rules to decentralized finance** (DEFI) actors to ensure the same level of protection.

Strengthening the EU's financial autonomy and competitiveness

Strengthening the EU's financial autonomy and competitiveness

> **Integrating European competitiveness priorities** into the missions of the European Supervisory Authorities (ESAs) and the European Commission.

> **Implementing a competitiveness test** before each new European regulatory initiative or review, for the benefit of European industry.

> **Promoting EU standards (UCITS/AIFM/ MMFR, etc.) internationally** as part of ESA missions.

A regulatory framework applied to the entire CMU ecosystem, including « non-financial» actors

> **Taking a comprehensive approach to the issues at stake on the provision of financial and non-financial data,** taking into account their costs and quality.

> **Including ESG data providers in the EU regulatory framework,** in line with the 2021 IOSCO recommendations[1] with ESMA supervision. **In the short term, they should be subject to a code of conduct[2].**

> **Avoiding excessive deregulation of benchmark providers[3]** and achieving a balanced regime, ensuring transparency of methodology and combating conflicts of interest[4].

An agile, harmonized, and stable supervisory framework

> **Recognizing the concept of group at the European level to facilitate the supervision of asset managers** established in several European jurisdictions (with, where appropriate, a national supervisory authority acting as the lead supervisor).

> **Enhancing consistency and convergence of rules and supervision** among Member States for national and cross-border products and activities (avoiding national gold plating).

> **Reducing reporting burdens by 25% for all financial actors,** including asset management companies, by eliminating redundant or obsolete reporting based on an annual review.

Implementing an EU regulatory framework allowing asset managers to fully fund the EU economy

A clear, coherent regulatory framework to fund the green transition

> **Better coordinating the regulatory framework** in terms of content and timing[5].

> **Simplifying SFDR regulation** by transitioning from a transparency regime to the establishment of 3 categories of products (generic ESG objective, Impact, and Contribution).

> **Defining key concepts, notably the notion of «transition»** to direct investments towards companies decarbonizing their business models.

> **Applying a European regulatory framework to data and benchmark providers** to ensure access to reliable and transparent data.

> **Strengthening the effectiveness of the Shareholder Rights Directive** by removing remaining barriers to the proper exercise of voting rights and shareholder engagement.

A diversified range of financial products and investment strategies, a key factor to ensure resilience and the funding of the EU economy

> **Preserving a sustainable money market fund model[6]** and promoting the efficiency and transparency of European short-term securities markets based on the Banque de France's NEU CP model .

> **Ensuring an ELTIF 2 regulation that provides sufficient flexibility in liquidity management** so that the product is viable and marketable.

> **Avoiding standardization of practices and mimetic behaviour, which are systemic risk factors (UCITS/AIFMD).**

> **Preserving the use of derivatives for effective portfolio management.**

> **Support innovation that contributes to the efficiency financial markets (DLT and blockchain)** by encouraging the issuance of digital securities.

1- IOSCO final report 2021: Environmental, Social and Governance (ESG), Ratings and Data Products Providers
2- As in the UK or other jurisdictions
3- Benchmark regulation
4- Maintain protective index regulation for users by aggregating indices from the same provider to calculate representativeness thresholds of €50 billion. This would help avoid the exclusion of indices widely used by EU managers
5- Adapt coverage and ratio requirements imposed on investors to issuer data availability (e.g. CSRD)
6- Status quo of the Money Market Funds Regulation (MMFR)

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