AFG – Response to the call for evidence on the SIU – Annexes

Executive summary

The French asset management association (AFG) welcomes the EC's call for evidence on SIU and supports its priorities on fostering EU competitiveness, EU economy funding, retail participation and simplification. Please see our proposals to ensure SIU's success.

There can be no SIU without retail participation in EU capital markets AND financing for the EU economy.

1. A holistic approach is essential

The SIU should empower investors, simplify financial markets access and drive long-term EU economic growth—without excessive constraints that deter participation. The SIU cannot be achieved outside simplification & a competitiveness-oriented framework.

The SIU must support retail investor participation AND EU economy financing, which are two faces of the same ambition: an EU label ***INVEST-EU*** for national accounts that reach EU-defined criteria, such as (1) a min EU investment threshold including SMEs and (2) a long-term investment focus, through (3) auto-enrolment to enhance long-term savings retail participation and financial education would meet those two goals. To boost the attractiveness of labelled products and legitimise a much-needed EU focus, Member States should grant the label the best possible tax regime existing at national level ***Annex1.***

2. SIU should be built with EU asset managers

EU asset managers are essential to financing EU's transformation and sustainable competitiveness, supporting companies of all sizes. Their ability to compete globally will be key to achieve SIU's objectives: **They allocate 15 percentage points more to the EU than non-EU peers, particularly in SME funding, where local expertise is crucial *Annex2.***

SMEs drive economic growth, foster innovation and support transitions while offering diversification and long-term return opportunities for investors. In France, asset managers oversee €4,6 trillion in investments, **70% allocated within the EU**.

3. The risks of a *simple and low-cost* approach

A well-designed EU label would ensure fair market access to retail & international investors while avoiding the pitfalls of so-called *low-cost* products, that divert capital outside the EU, worsening EU companies underinvestment.

Prioritizing "low cost" investing would undermine EU goals, *i.e.* funding SME growth, sustainable infrastructure, defence and transitions. AFG supports *fair cost* products, that ensure diversification, quality and value for investors, noting that costs have already strongly declined.

MiFID framework already emphasizes product clarity. Introducing a new *simple* product could weaken the globally recognised UCITS brand, increase regulatory costs and confusion among retail investors ***Annex3.***

We fear RIS goes against the EC's objectives by adding complexity and burden with new tests instead of fostering retail investment. AFG supports a streamlined investor journey, simplifying the existing framework (MIF, IDD, PRIIPS) encouraging investor participation. Instead of a benchmark mechanism, amounting to price regulation and favouring perceived *low-cost* products at the expense of EU economy financing, a common language on financial products with a unified classification would allow a simple, reliable, decentralised VFM ***Annex3.***

4. SIU: A functional ecosystem, freed from structural barriers

Access to affordable and reliable data is key for competitiveness and efficiency of EU financial markets ***Annex4*** and for financing the EU's ESG transition and contributing to sustainable competitiveness ***Annex5.***

Mobilizing EU savings for EU companies requires a competitive, efficient supervisory framework. Cross-border obstacles should be tackled by an enhanced application of EU law as a single rulebook by Member States and by recognizing the notion of group at EU level ***Annex6.***

Tax barriers, such as withholding taxes within the EU, create complexity, legal uncertainty and deter investment. To facilitate capital movement and finance EU priorities they should be abolished.

Annex 1 – AFG's proposal to boost long-term saving investments in the EU: INVEST-EU label.

Note on fostering long-term investment in the EU

Retail investor participation AND EU economy financing are two faces of the same ambition.

An EU label ***INVEST-EU*** for national accounts would meet those two goals with EU-defined criteria, such as:

- ✓ best possible tax regime existing at national level
- ✓ European investment focus
- ✓ early redemption options
- ✓ strong consumer protection and risk mitigation
- ✓ auto-enrolment
- ✓ long-term focus
- ✓ Financial education and tools

<u>I Where do we stand? – barriers to tackle</u>

The Noyer, Letta and Draghi reports on the European Capital Market Union and European competitiveness have highlighted two significant challenges that European countries will face in the coming years:

- The need to drive more private savings into EU corporate securities to improve their competitiveness, with a particular focus on SMEs and finance part of the investments needed for the twin transitions, ecological and digital.
- The need for households to build substantial additional pension savings in a context where replacement rates from public systems are expected to decrease.

Mobilizing savings more effectively and making more investments available for European companies, notably for young and innovative companies can be boosted by long-term savings products, especially when dedicated to corporate securities, and by private pension savings products.

The previous experience of the PEPP proved that an additional EU product was redundant with the already existing national savings products and failed in driving more saving into long-term investment.

Additionally, the lack of school-based financial education programs in most European countries is an obstacle to the development of a long-term investment habit. The allocation of financial assets, with insufficient investment in equities, is suboptimal, both in meeting the need for additional retirement income and in providing companies with the equity capital required for growth and innovation financing.

Across the EU, a lot of national savings products already channel savings into corporate securities. **These products could be boosted by a European Label.** The Label would also allow Member states to share good practices to increase long term investment at the national level.

Numerous examples, such as in Sweden, Italy, and France, shows the success of dedicated incentives to raise retail participation (see in Annex).

II Our proposal for long-term investment in the EU: the creation of a Label "INVEST-EU" for national savings products

1. European Investment Focus

An EU savings label should have a minimum exposure to EU corporates securities. Such an exposure for the label is simple to understand for retail investors.

The EU should prioritise enhancing investment in young and innovative companies. Offering favourable tax treatment could incentivize greater exposure to listed and unlisted SME's. this approach is particularly relevant considering that, over the past 15 years, small caps companies in the EU have out-performed large caps by 40%[1].

It should also offer flexibility upon the types of eligible investments to sustain the need of European companies to diversify the sources of their financing (corporate equity, corporate debt).

These incentives would enable investors to support their domestic economies while benefiting from tax advantages.

2. Early redemption options

Early redemption options, such as free withdrawals in the case of certain life events (such as life hazards, purchase of the main residence or the start of a new business) should be contemplated.

Such flexibility would **reduce fears about being locked** into a long-term commitment and would make the product more attractive to retail investors.

[1] Source: Six - indices de catégories EuroPerformance

3. Strong consumer protection and risk mitigation allowing long term financial performance

Simple default options such as lifecycle solutions for pension products or guided solutions for other long-term investments should allow investors to select risk tolerance levels aligned with their financial goals and age.

A **lifecycle option** ensures that the portfolio composition adjust automatically, becoming more conservative as the investor approaches retirement or other long-term goals. In contrast, a **lifestyle option** diversifies the portfolio based on the clients' profile, whether prudent, balanced or dynamic.

Additionally, under MIF rules, **the client journey should be substantially simplified** to better support a long-term investment horizon.

Such options would increase investors' confidence **in investing** in more volatile markets.

4. Auto-enrolment
   The introduction of a **default saving and investment system** that enables individuals to **automatically allocate a portion of their salary into a labelled savings product**, with the option to optout through their employers, would help overcome inertia by leveraging automation and increasing the likelihood of saving. Over time, it would foster a savings habit and boost participation in financial markets.
5. Financial education and tools

Providing financial literacy and resources to help individuals understand how markets work will enable European citizens to approach long-term investments with greater confidence. This, in turn, reduces fear and uncertainty about financial markets, fostering higher market participation.

Annex – examples of dedicated incentives to raise retail participation

Across the EU, a lot of national savings products already channel saving into corporate securities.

For instance, in Sweden, households' stock market participation is significantly higher than in other countries thanks to a complete savings system based on:

- Fiscal incentives for domestic stock purchases launched in the 80's
- Creation in 2012 of the ISK, a saving account invested in stocks with a simple and attractive tax treatment
- Premium Pension System: 2.5% of your salary invested in funds of your choice
- Occupational pension schemes with a coverage of 90% of employees

In other countries, incentives to boost stock market participation, such as the French PEA (Plan d'Epargne en Actions) ad Italian PIR (Piano Individual di Risparmio) appear effective.

Etudes Eco

How does asset management finance the European Union?

FEBRUARY 2025

AFG

CONTENT

KEY FINDINGS

Asset management, the driving force behind European financing

- **A key role for the EU economy: asset management is an essential pillar in the financing of the European economy. France stands out, with 30% of the EU market share.**

- **A French industry firmly rooted in the EU: with 74% of investments made within this economic region, French asset management has a European prism.** These investments are equally divided between France (37%) and the remaining EU countries.

- **Diversified securities portfolios: French asset managers have a balanced approach.** 54% of invested assets are in bonds, 33% in equities and 13% in money market assets.

- **Massive equity support for EU companies:** of the **€1,070 billion invested directly in equities, 60% goes to EU companies.**

- **The €1,750 billion in bonds supports public and private financing in Europe, with 81% of assets directed towards EU issuers.**

- The money market, a lever for liquidity: **with €410 billion invested in money market instruments, 85% of which is held in the EU,** this market plays a key role in financial stability and corporate liquidity.

- **A varied customer base with strong European roots:**
  - Outstandings break down as follows: 27% for individual customers, 67% for institutional customers and 6% for corporates.
  - Geographically, 77% of assets are managed for French customers, 16% for customers in the EU (excluding France), and 7% for customers outside the EU.

- **Loss of influence of European asset managers:** between 2008 and 2023, their market share in EU-domiciled UCITS equity funds fell from 68% to 56%.

- **The strategic influence of decision-making centres:**
  - In countries where non-European asset managers dominate, asset allocations are more oriented outside Europe.
  - Conversely, European asset managers favour European equities (+15 points) and **small and medium-sized enterprises** (+10 points), demonstrating their commitment to the local economy.

INTRODUCTION

The asset management industry: a key lever for financing the future and meeting Europe's challenges

The asset management industry is a vital lever for financing the future and addressing Europe's pressing challenges. While Individual and institutional investors across the EU collectively hold **€50 trillion in financial savings**, these resources remain **insufficiently allocated to long term investments and the financing of critical transitions**.

Asset management is far more than a financial service – it transforms private and institutional savings into engines of growth. By entrusting their capital to asset management companies (AMCs) through mandates or investment funds, investors empower these professionals to optimise asset value while addressing diverse objectives such as liquidity, investment horizons, performance, and risk management.

A pillar of economy growth and transition

In Europe, ⅓ of financial assets are invested in solutions offered by asset management companies, serving a wide range of stakeholders:

- **Individuals,** to fund life goals, and secure retirement,
- **Institutional investors,** to manage reserves over the medium- and long- term horizons,
- **Companies,** to optimise cash flow and finance growth.

Asset managers mobilise this capital across a wide range of assets classes – money market, fixed income, listed and unlisted equities, property, infrastructure – in all geographical areas and economic sectors. They seek opportunities for growth and value creation with companies and public and semi-public entities.

Complementing bank lending, asset management plays a crucial role in financing economic agents. It provides support across primary and secondary markets, ensuring a steady flow of capital to businesses of all sizes, from SMEs to major groups, to help them innovate and navigate critical transitions.

A strategic imperative for European competitiveness and sovereignty

In the context of globalized capital markets, Europe needs to strengthen its asset management industry. This industry is a cornerstone for addressing two critical challenges:

1. **Financing ecological and digital transitions:** channelling private savings towards equity markets and sustainable transformation projects.
2. **Preparing for demographic ageing: as Europe** faces challenges with predominantly pay-as-you-go pension systems and declining replacement rates, citizens need to accumulate long-term savings to secure their futures.

With €50 trillion in savings, the potential is immense

By reinforcing the asset management industry, Europe can empower its economies to grow, innovate, and successfully transition, while safeguarding the financial security of the citizens.

European asset managers, with their domestic allocation bias, are essential in promoting efficient capital flows within the EU. This professionalization helps mitigate common biases in savings behaviour, such as limited financial literacy or underestimating long-term savings needs.

The competitive and dynamic savings management market positions EU asset managers to play a pivotal role in economic growth and global financial stability.

This study underscores the economic significance of asset management, by exploring two main dimensions:

- **Financing the economy, particularly within the EU,**
- **Savings solutions for investors.**

The study is structured as follows:

- **Part 1 outlines the special characteristics of asset management, which is distinct from banking and insurance activities and is at the heart of financial flows between investors and issuers.**
- **Part 2 evaluates the importance of French asset management within the EU, focusing on the size and structure of investment vehicles.**
- **Part 3 examines how French asset managers finance the economy, detailing asset allocation and the impact of declining European asset management competitiveness.**
- **Part 4 analyses the role of French asset management in the liabilities of French and EU companies.**
- **Part 5 explores the client base highlighting the distribution of assets under management by client type and nationality.**

CHAPTER 1
Definition and specificities of asset management

A regulated and strategic industry

Asset managers are subject to specific regulations and supervision distinct from those applied to banks, insurers and other institutional investors.

Agency relationship: Unlike banks or insurers, asset managers act solely as agents, managing capital on behalf of clients.

Fiduciary duty: Asset managers are required to act in the best interests of their clients, adhering to strict commitments such as prudence, transparency regarding potential conflicts of interest, and good faith. Asset managers must provide clear information to inform investor decisions and regularly report on performance.

Limited balance sheet risk: Unlike banks, asset managers neither grant credit nor custody services, nor do they act as counterparties in transactions involving derivatives, financing or securities. Specific constraints govern their use of leverage and borrowed funds, and they must maintain sufficient regulatory capital under the supervision of national authorities. This results in a low balance sheet exposure, ensuring client assets remain protected even in the event of the asset management company's bankruptcy.

Client asset protection: A robust regulatory framework ensures client funds are securely held separately from the asset management company's balance sheet. Regulations also enforce strict risk management and compliance procedures.

Addressing investors needs

Security and growth: Asset management contributes to securing and growing wealth by offering a wide variety of solutions tailored to diverse clients, aligning their investment horizons and risks profiles (e.g. cash management for businesses, institutional investors planning mid-to-long term reserves, individuals managing financial assets).

Optimized risk-adjusted returns: Asset managers aim to achieve positive real returns, while considering the risk profiles and objectives of their clients.

Diversification and risk management: Allocation across various asset classes reduces overall risk while maximizing opportunities.

Liquidity risk management: Asset managers closely monitor market liquidity and client profiles to anticipate inflow, outflows and risk of sudden net withdrawals. They implement risk management policies and portfolio management strategies to ensure liquidity obligations are met even during market disruptions.

Reduced transaction costs: The ability of asset managers to negotiate large blocks of securities enable them to lower transaction costs. Execution activities come with costs, but asset managers achieve economies of scale, offering an advantage individual investors may struggle to attain.

Promoting financial education: Asset managers provide financial information and financial advice to investors, enhancing their understanding and enabling informed decision-making. They play an educational role in personal finance and investment, helping individuals achieve long-term financial goals.

Financing the economy and transitions

Providing capital: Asset managers invest in securities (stocks, bonds) issued by economic agents in primary and secondary markets, supplying the capital needed for development and research projects. They support long-term investments essential for economic growth and jobs creation.

Active shareholder role: Asset managers are active shareholders, influencing corporate governance and strategy to promote long-term value creation for investors. They support the transition to a more sustainable economy by integrating ESG criteria alongside financial criteria in issuer analyses and actions (dialogue, exercising voting rights.) to improve governance.

Encouraging dialogue with issuers: Asset managers engage with company management or board members to foster better governance and influence corporate policies and practices towards more responsible and transparent management.

Exercising voting rights at general meetings: Asset managers participate in general meetings, file resolutions, and exercise voting rights on behalf of their clients.

Contributing to market efficiency

Providing liquidity: By regularly buying and selling securities, asset managers contribute to the liquidity of financial markets, facilitating transactions and price discovery.

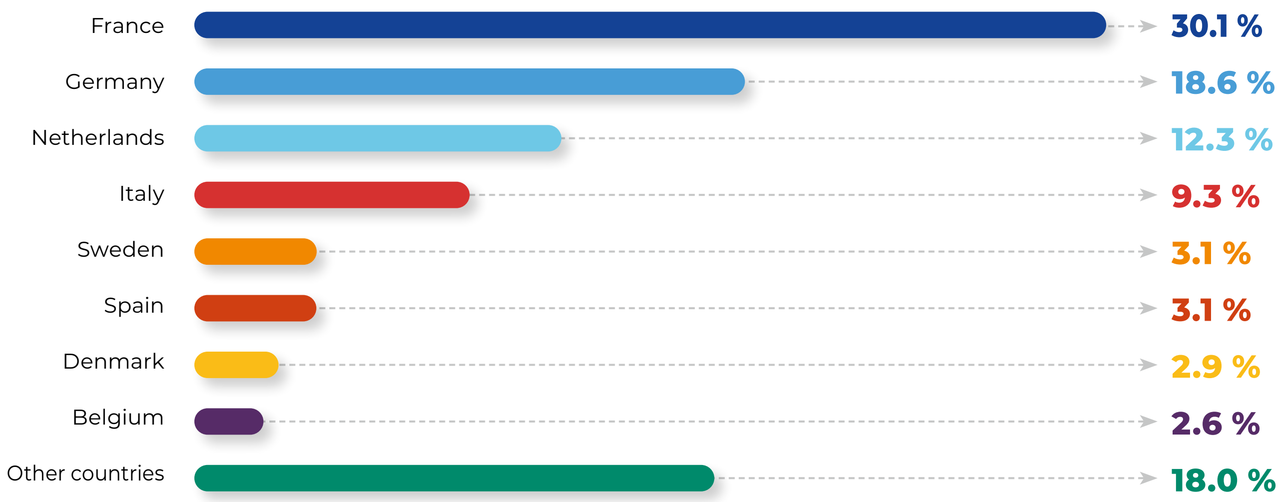
Stabilising markets: Through portfolios diversification and hedging strategies, asset managers help stabilise financial markets, reducing risk of excessive volatility.

Asset pricing and valuation: Asset managers rely on research, professional databases, and specialised software to track economic developments of issuers, sectors, countries, and regions. These tools help identify the most promising investments, ensuring optimal decision-making.

CHAPTER 2
French asset management: a dynamic industry in the EU

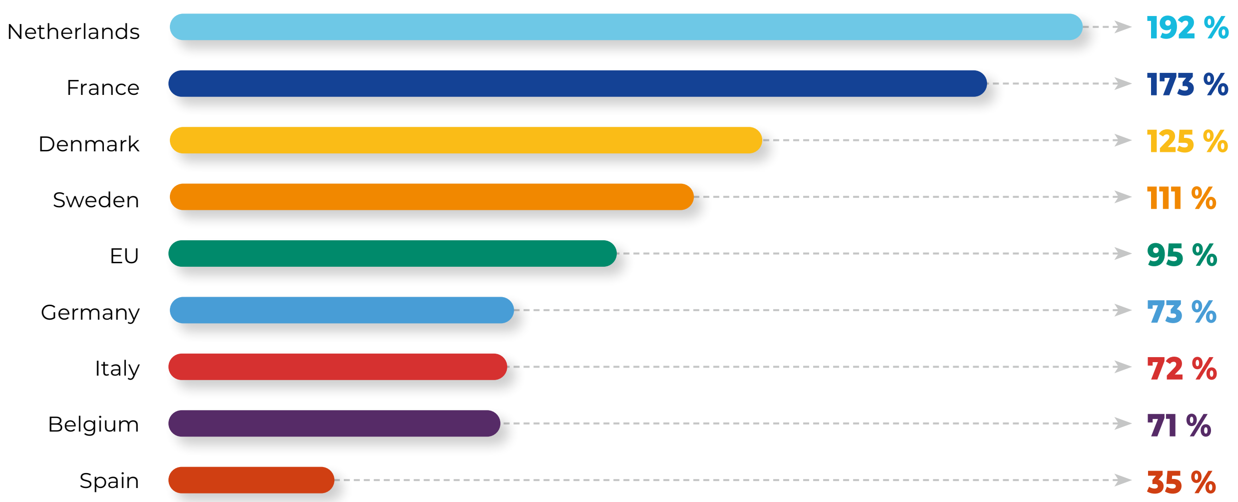
France's asset management industry stands as a leader within the EU.
Managing €4,600 billion in assets through 700 asset management companies, it holds a significant market share (30%) and economic weight equivalent to 173% of the country's GDP.

GRAPH 1. Market share by asset management centres in the EU



(Data to end 2023 – Source: EFAMA)

GRAPH 2. Assets under management in EU countries as a % of GDP



(Data to end 2023 - Source: EFAMA)

Investment vehicles breakdown

The distribution of assets under management (AuM) is as follows:

- **65% in investment funds,**
- **35% in discretionary** management mandates.

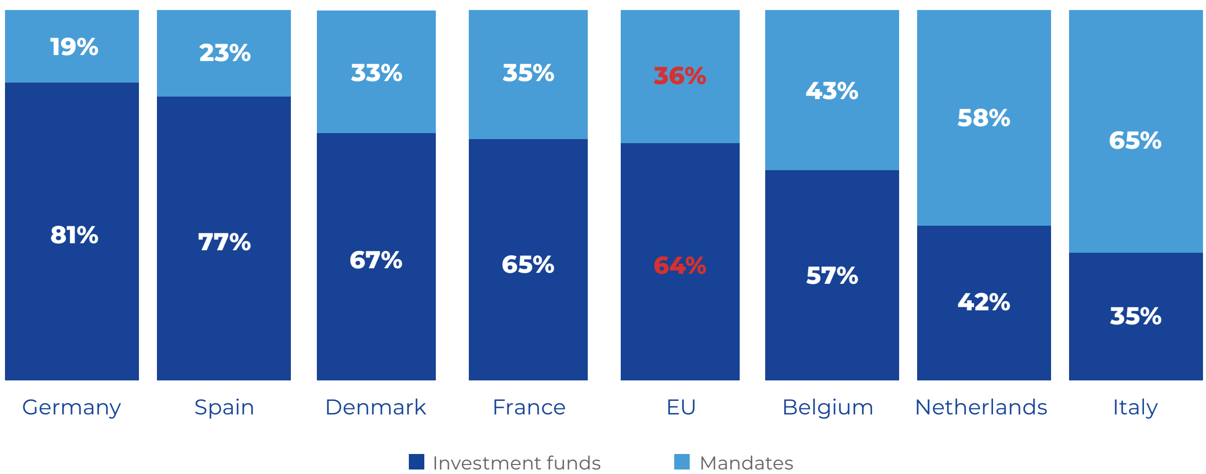
The European "passport" system enables an asset management company authorized by its home country's regulatory authority to operate and market its products throughout the EU and the European economic area under the freedom to provide services. This regulatory harmonisation creates a vast economic zone for asset managers to distribute products while offering investors a wider selection in a competitive market. As a result, an investment fund can be domiciled in one EU country, managed financially in another, and marketed across the EU and beyond.

Local preferences and industry diversity

GRAPH 3. Breakdown by type of investment vehicle

(Data to end 2023 - Source: AFG)

GRAPH 4. Breakdown of asset under management in EU countries



(Data to end 2023 - Source: EFAMA)

The varying distribution between funds and mandates across EU countries reflects differences in the financial products preferred by institutional investors.

For example :

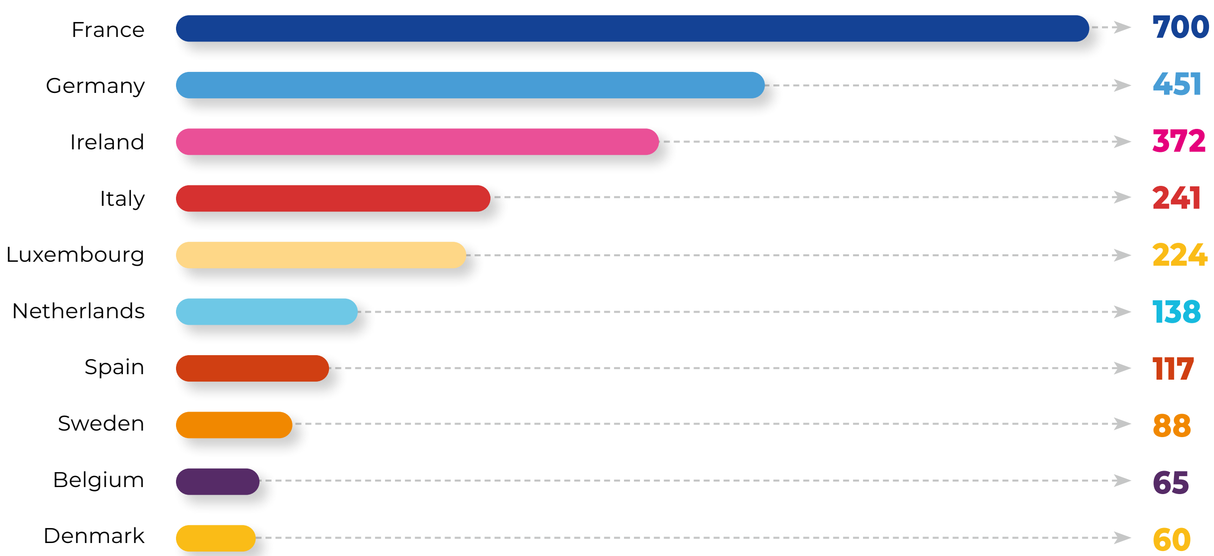
- **Germany:** Institutional investors primarily use investment funds.
- **Italy:** Discretionary mandates are more commonly used.

- **Germany:** Institutional investors primarily use investment funds.
- **Italy:** Discretionary mandates are more commonly used.

France's asset management sector is notable for its diversity, encompassing a broad range of asset management styles across all asset classes, including large, mid and small caps, sovereign and corporate bonds, money market, private equity, property, infrastructure and private debt. This breadth allows France's asset managers to offer tailored solutions for diverse client needs, from short-term projects to long-term retirement planning.

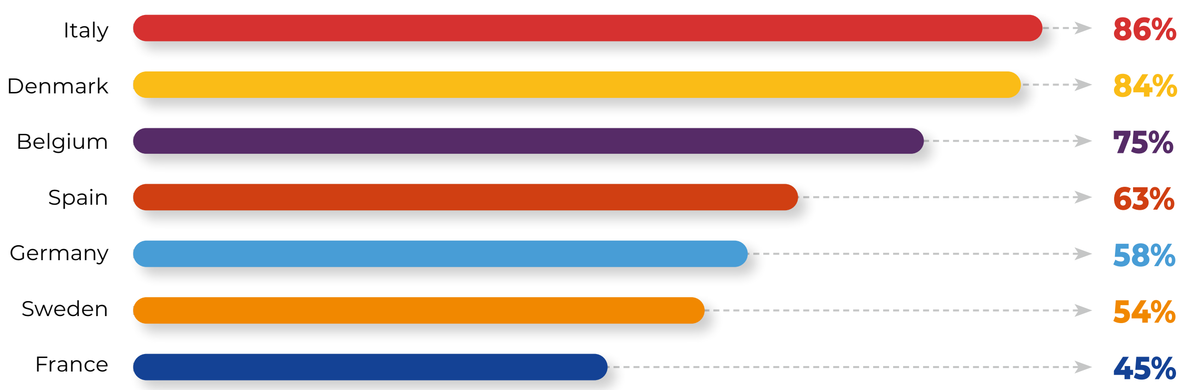
French asset management companies account for 22% of all EU-based asset management firms (3,152 companies at the end of 2023).

GRAPH 5. Number of asset management companies in selected EU countries



(Data to the end of 2023 - Source: Efama)

GRAPH 6. Market share of the top 5 asset management companies in selected EU countries

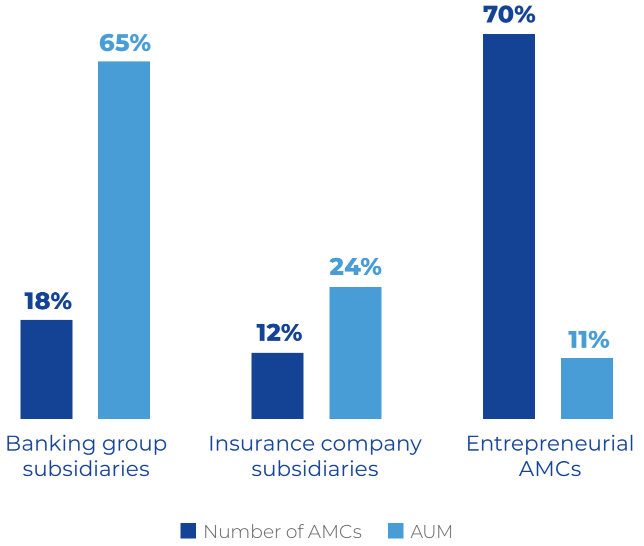


(Data to end 2023 - Source: Efama)

The asset management industry in France boasts one of the EU's most vibrant entrepre-neurial ecosystems, with over two-third of com-panies classified as entrepreneurial ventures.

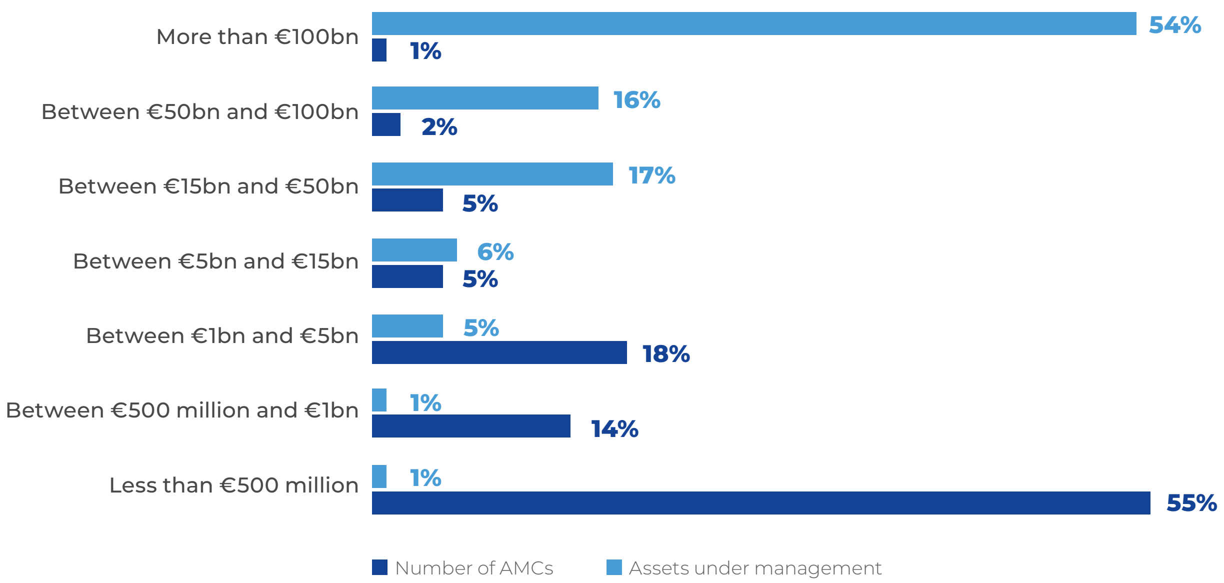
France is also home to major global players, with **4 French groups ranked among the world's top thirty asset management firms**.

GRAPH 7. Type of asset management companies in France



(Data to end 2023 – Source: AFG)

GRAPH 8. Breakdown of asset management companies in France



(Data to end 2023 – Source: AFG)

European directives, such as UCITS, AIFMD, MiFID II, provide the regulatory framework for asset management products, services and com-panies that managing them.

In France, these are implemented and enforced by the Autorité des Marchés Financiers (AMF), which oversees the approval and supervision of asset management companies and investment funds.

The industry operates within a robust ecosys-tem that ensures investor security through:

- Asset segregation with authorized deposi-taries,
- Monitoring compliance with management and investment rule
- Transparency of fees and charges,
- Document provision of (e.g., prospectus, Key information document).

CHAPTER 3
Allocation of managers' portfolios in France and Europe

The recent survey conducted by the AFG[1] analysed portfolios managed in France, including both management mandates and investment funds. This extensive analysis covered **€4,247 billion in assets, representing over 90% of assets managed in France.** Within these portfolios, investments in **financial instruments – equities, bonds and money market securities – amounted to 3,230bn.**

Portfolio breakdown: a diverse allocation of asset between investment funds and mandates

The analysis reveals a varied distribution of assets across key categories:

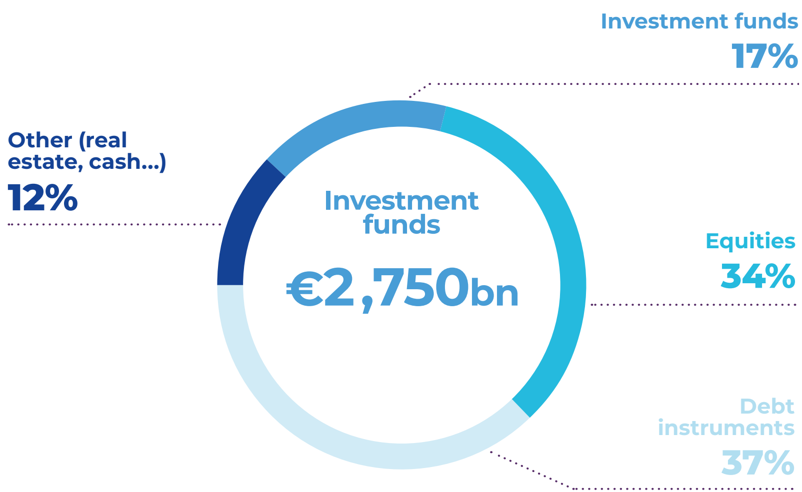
- **Investment funds (€2,750 billion):**
  - 37% in debt securities,
  - 34% in equities,
  - 17% in investment funds,
  - 12% in other assets (real estate, derivatives, cash, etc.).

Private clients in France hold nearly 40% of these assets directly, often through employee savings plans, equity savings plans, and unit-linked life insurance. Their portfolios are primarily concentrated in equity and diversified funds. **The remaining investors include companies, public bodies, institutional investors, banks, and investment funds engaged in fund-of-funds or master-feeder structures.**

- **Management mandates (€1,500 billion). A stronger preference for fixed-income products emerges, with:**
  - 77% allocated to debt securities,
  - 10% to investment funds,
  - 9% to equities,
  - 4% to other assets.

Discretionary management serves private clients seeking personalised services, and institutional clients delegating financial management. For institutional investors – accounting for over 90% of assets under mandates – financial investments are constrained on the one hand by the regulations and accounting and tax rules that apply to them, and on the other hand by their liabilities (i.e. the contractual objectives defined with their clients)

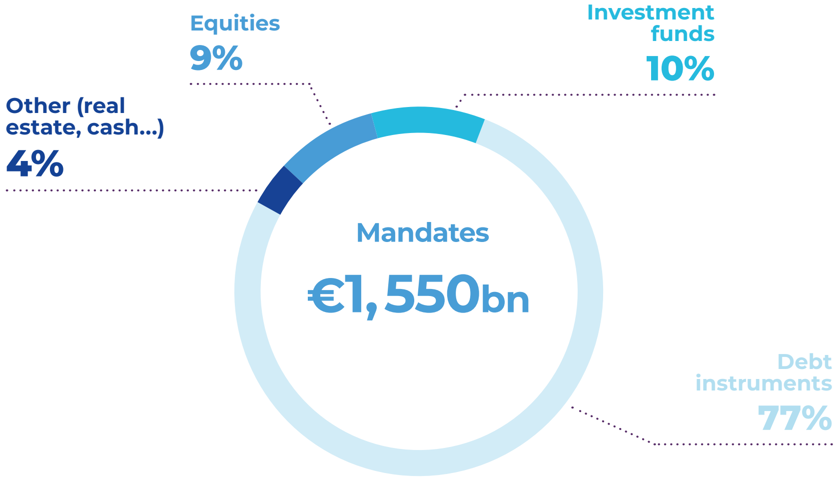
GRAPH 9. Investment fund portfolios by asset class



(Data to end 2023 – Source: AFG)

1) *See the survey methodology at the end of this document.*

GRAPH 10. Mandate portfolios by asset class



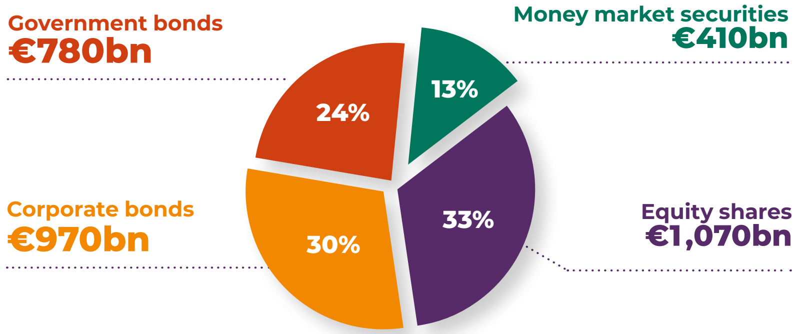
(Data to end 2023 – Source: AFG)

Investment trends by asset class and region

Among the €3,230 billion directly invested in securities:

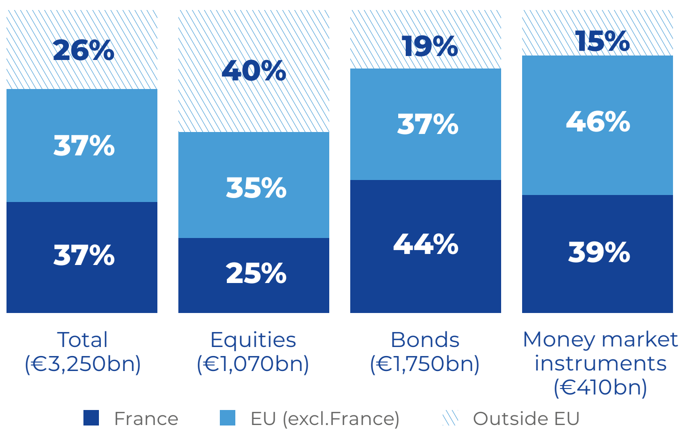
- 54% of assets are in bonds,
- 33% in listed and unlisted equities,
- 13% in money market securities.

GRAPH 11. Breakdown of securities in portfolios (€3,230 bn)



(Data to end 2023 – Source: AFG)

GRAPH 12. Assets under management by asset class and region



(Data to end 2023 – Source: AFG)

The geographical distribution of these investments demonstrates a strong focus on **the EU economy:**

- 74% of investments remain within the EU, equally split between **France (37%) and other EU countries (37%),**
- 26% of investments target markets outside the EU.

These figures highlight the strong commitment of French asset management to financing European economies.

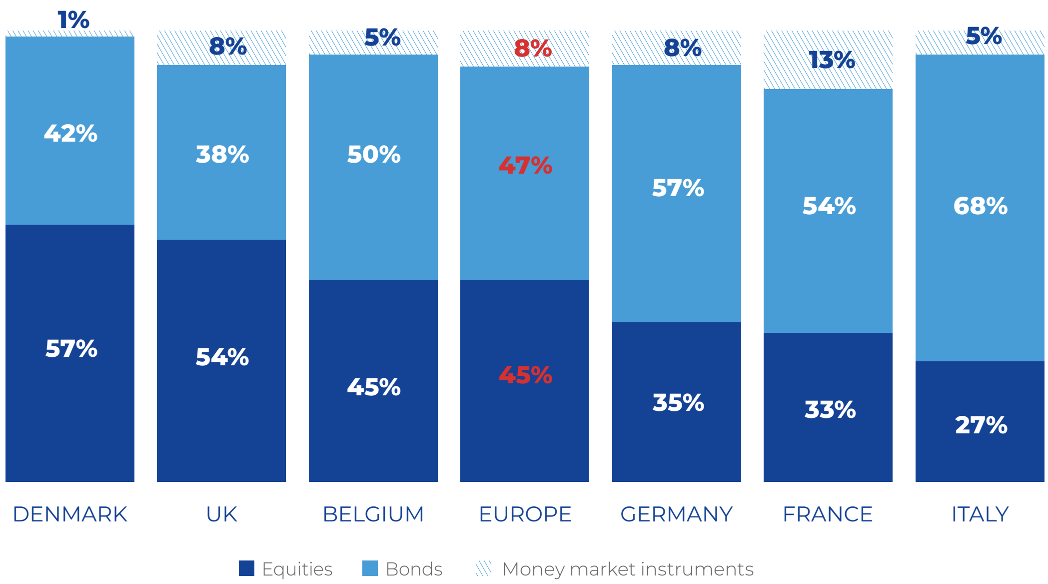
Insights from European comparisons

A comparison of asset allocations across Europe reveals patterns in the savings market:

- **Equity investments: Countries with well-developed long-term savings products, such as pension funds, tend to allocate more heavily to equities. The smaller size of** pension funds in France, Germany, and Italy limits this potential. Expanding **funded supplementary pensions could significantly boost equity investment.**
- **Bonds: A dominant asset class** in Italy, France and Germany, reflecting the strong role of **life insurance in these countries'** savings landscape.
- **Money market funds:** France's leading role in euro-denominated money market funds gives this asset class a more prominent share compared to other European markets.

Challenges in attracting capital to European markets

GRAPH 13. Allocation of asset under management (investment funds and mandates) by asset class

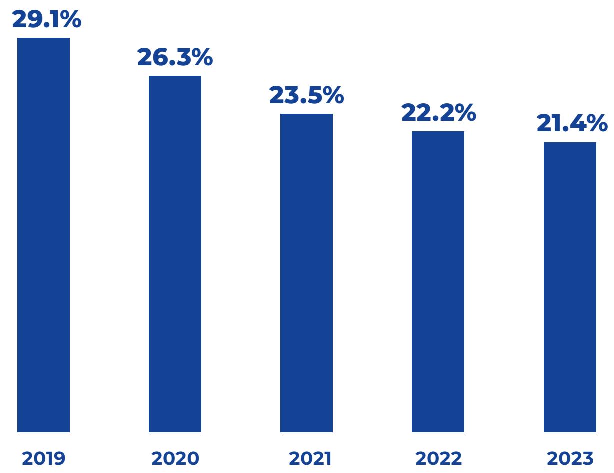


(Data to end 2023 – Source: Efama)

The geographical breakdown of issuers reveals notable differences between equity and bond holdings across European portfolios. Since 2019, the share of domestic equities has declined, while bonds have remained stable. This trend, highlighted in the recent **Draghi, Letta and Noyer reports**, points to an imbalance between EU and non-EU investments.

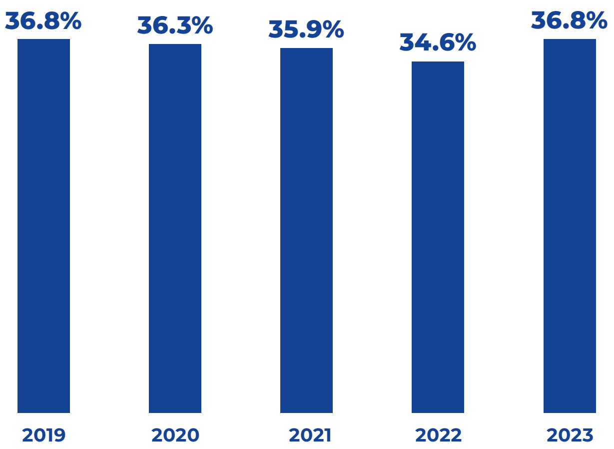
- European investors increasingly favour non-EU equities, while foreign investors reduce their staked in EU companies,
- This dynamic has led to undervalued EU listed companies diminishing the global appeal and competitiveness of European markets,
- The inability to attract sufficient capital created risks for financing growth and sustaining vibrant local markets.

GRAPH 14. Domestic equities as a percentage of total equities in European fund managers' portfolios



(Data to the end of 2023 - Source: Efama)

GRAPH 15. Domestic bonds as a percentage of total bonds in European fund managers' portfolios



(Data to the end of 2023 - Source: Efama)

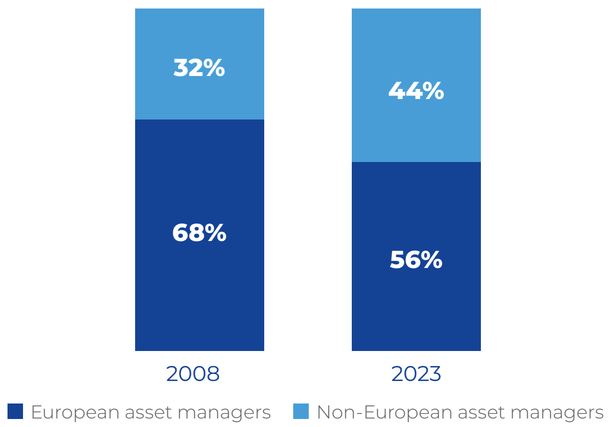
Focus

The declining competitiveness of European asset managers

Between 2008 and 2023, European asset managers have lost ground in the EU domiciled UCITS equity fund markets.

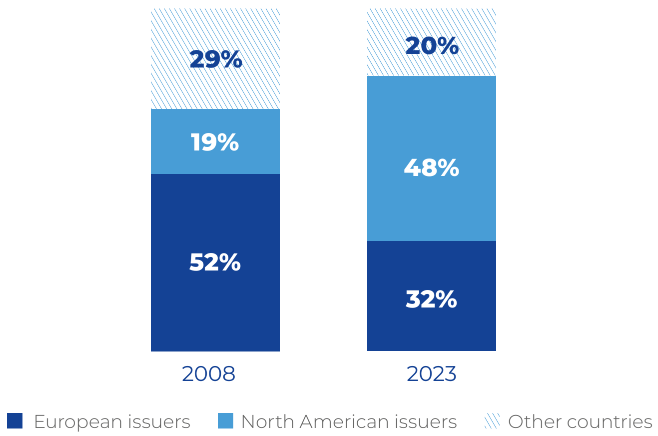
- **Market share decline:** European managers share dropped from 68% in 2008 to 56% in 2023, while non-European managers grew their share from 32% to 44%.
- **Geographical reallocation:** The share of European equities in UCITS portfolios fell from 52% in 2008 to 32% in 2023. Simultaneously, North American equities now dominate, rising from 19% to 48%.

GRAPH 16. Market share by nationality of asset manager



(Source: Morningstar – AFG calculations)

GRAPH 17. Equity funds: change in the geographical allocation of equities in the portfolio

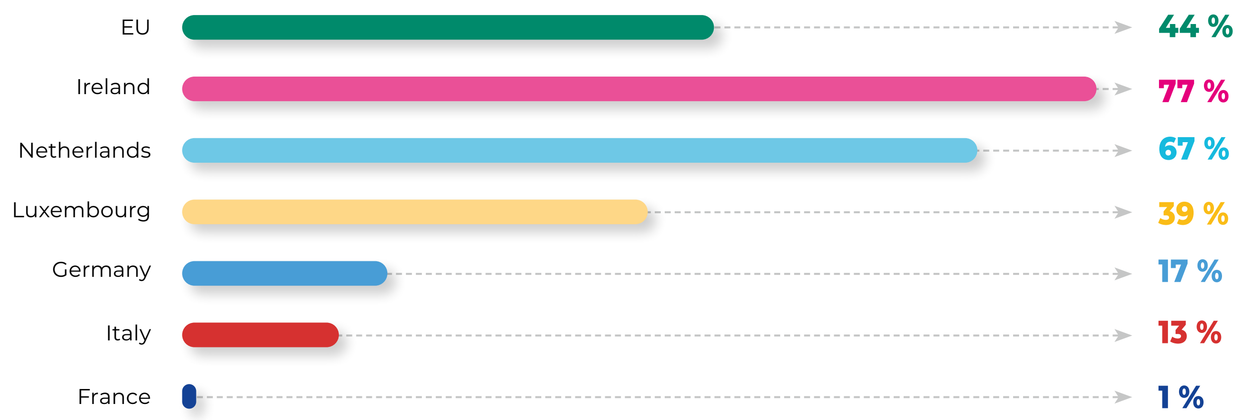


(Source: Morningstar - AFG calculations)

This shift reflects the growing influence of non-European asset managers, whose investment policies favour U.S. equities over European ones. For example, in Ireland – where non-European managers hold a 77% market share – 80% of equity fund assets are allocated outside Europe.

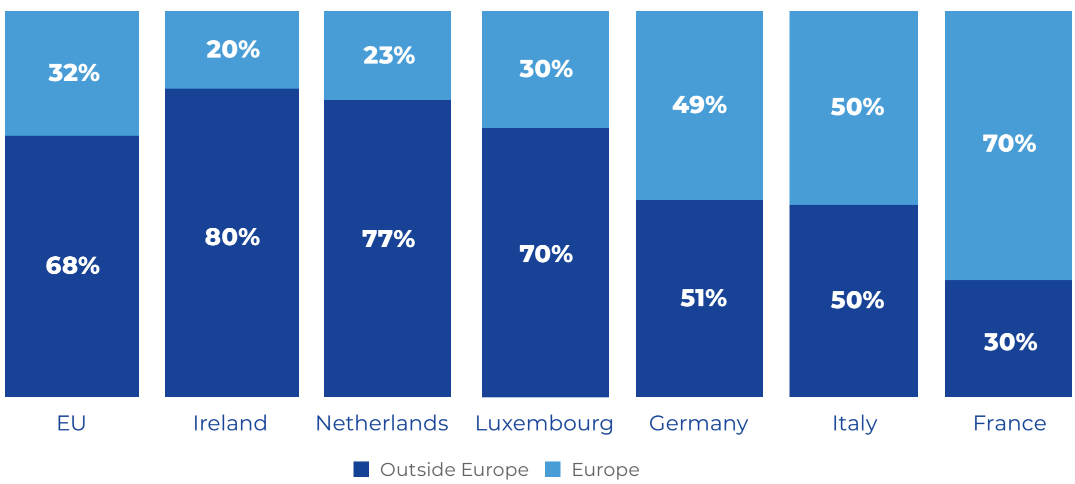
As a result, the decision-making centre for funds' investment policies is **increasingly moving outside Europe**, favouring investment in US equities. EU investment funds have therefore financed US companies to a significant extent, helping to boost their valuations.

GRAPH 18. Market share of non-European asset managers by country of domicile of UCITS equity funds



(Source Mornigstar – AFG calculations – 2023)

GRAPH 19. Geographical allocation of UCITS equity funds by country of domicile

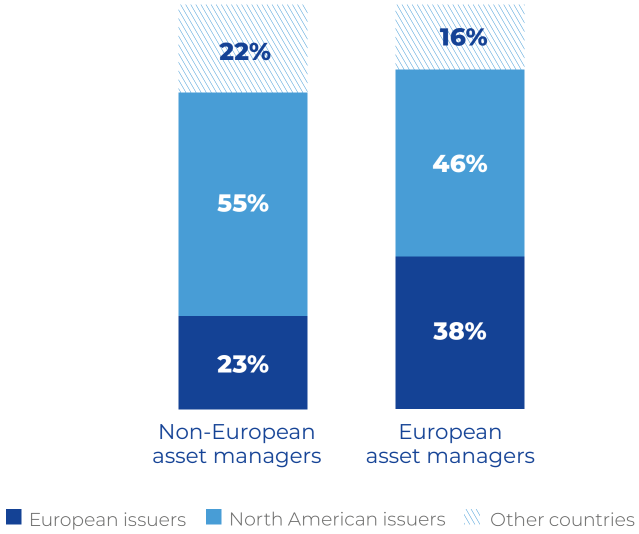


(Source Mornigstar – AFG calculations – 2023)

European managers invest 15 percentage points more in European issuers than non-European managers, 38% of portfolio assets vs. 23%.
At the same time, **European asset managers allocate a greater proportion of their investments to European small and mid-caps**, with a difference of **+10 points compared to non-European managers.**

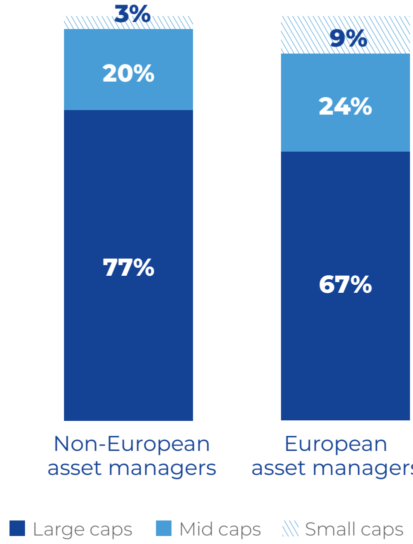
Small caps account for 9% of the portfolios of European asset managers, compared with 3% for non-European managers. As for mid-caps, the difference in allocation is 24% vs. 20%.

GRAPH 20. Geographical allocation of UCITS equity funds by headquarters' location of the asset manager



(Source Mornigstar – AFG calculations – 2023)

GRAPH 21. Allocation of UCITS equity funds by headquarters' location of the asset manager



(Source Mornigstar – AFG calculations – 2023)

Conclusion : a call to action for European asset management

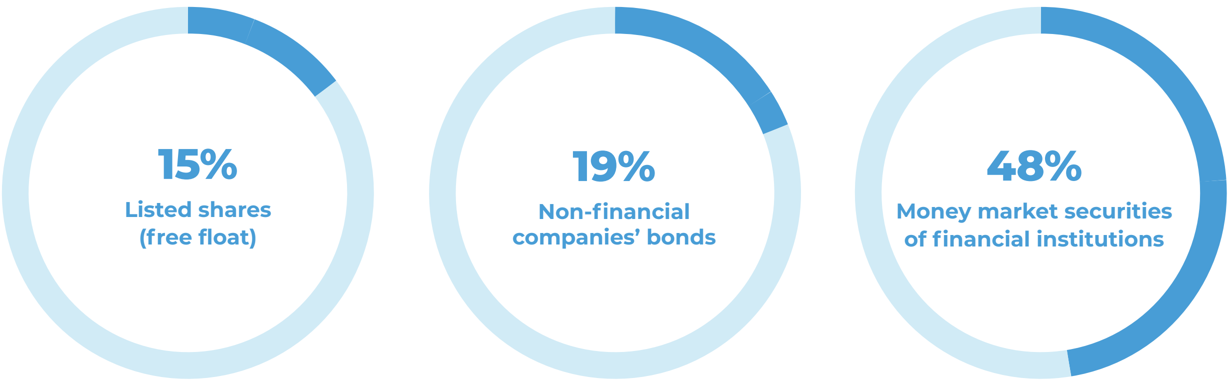
The declining competitiveness of european asset managers and the persistent under-allocation to EU equities underscore the urgent need for strategic reforms. Strengthening long-term savings products, enhancing the appeal of EU financial markets, and addressing capital outflows will be critical to restoring balance, boosting valuations of EU companies, and supporting sustainable growth.

CHAPTER 4
Weight of French asset managers in corporate financing

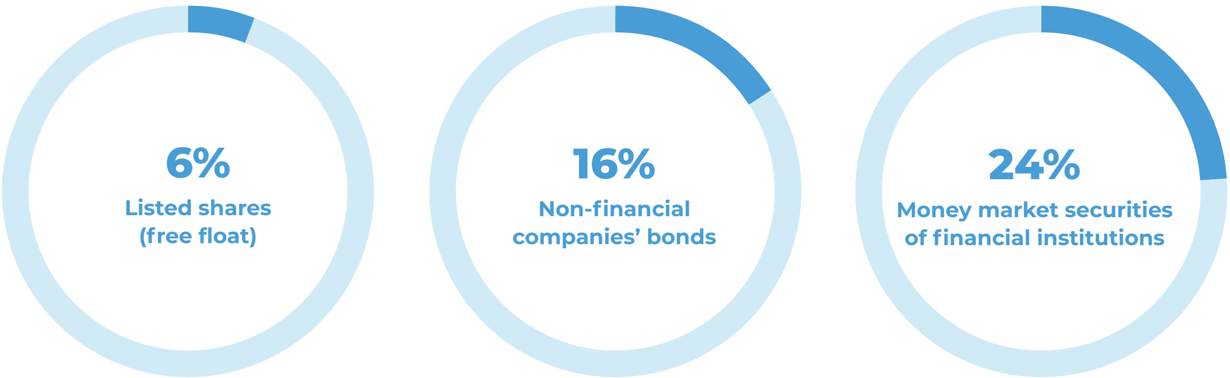
The French asset management industry is a cornerstone in financing French and EU companies, significantly contributing to their growth and development. This impact is measured by comparing the securities held in asset management portfolios to the total corporate equity and debt issued by various economic agents

French asset managers hold 15% of free-floating listed equities of French companies and 6% of those of EU companies, underscoring their **crucial role in corporate valuation and access to capital**. Furthermore, 19% of French non-financial corporate bonds and 16% of EU corporate bonds are managed by this industry, providing essential medium – and long-term financing for development projects. On money market securities, French managers oversee 48% of the assets issued in France by financial institutions and 24% of those in the EU, **reinforcing their pivotal role in maintaining liquidity and stability within the financial system.**

GRAPH 22. Asset management impact on French capital markets



GRAPH 23. Asset management impact on EU capital markets



These shareholdings give asset managers in France significant influence over corporate governance, exercised through voting rights and active dialogue with issuers. The integration of ESG (Economic, Social, and Governance) criteria into asset management strategies further amplifies this influence, driving long term improvements in corporate behaviour, asset quality, and sustainability, while on enhancing investment performance.

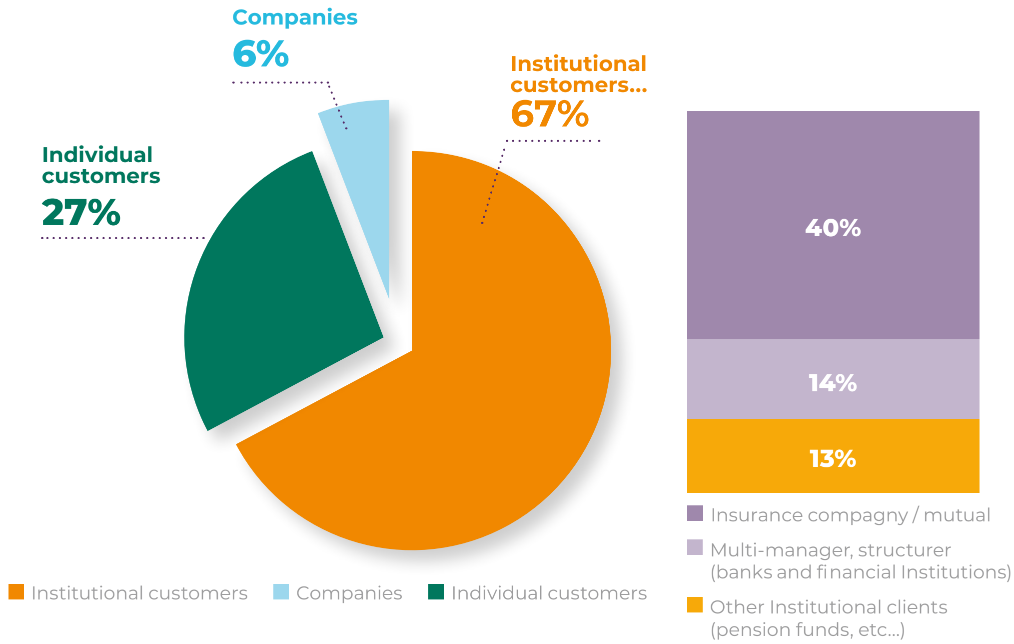
CHAPTER 5
Nature of asset management clients in France and Europe

The client base of the French asset management industry is both diverse and predominantly European, reflecting a strong foundation in the local market while maintaining an international footprint.

Client type

- Individual clients account for **27% of total assets, primarily through products like employee and retirement savings plans, unit-linked life insurance and equity savings plans.**
- **Institutional clients dominate with 67%** of assets, particularly from insurance companies and mutual insurers, which account for 40% of assets under management.
- **Corporate clients represent 6%, benefiting from tailored cash management solutions.**

GRAPH 24. Type of clients (Investment funds and mandates)



(Data to end 2023 – Source: AFG)

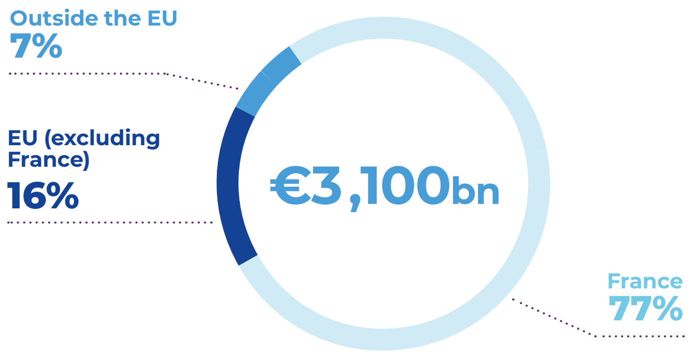
Client nationality

- **74% of assets under management are for French clients**, while 26% come from foreign clients, including 21% from the EU (excluding France) and 5% from non-EU countries.
- **Among investment funds, 70% are managed for French clients and 30% for foreign clients,** whereas **management mandates see 80% allocated to French clients** and 20% to foreign ones.

Of the **investment funds managed in France**, **59%** are managed for **institutional and corporate clients** and **41% for individual clients.**

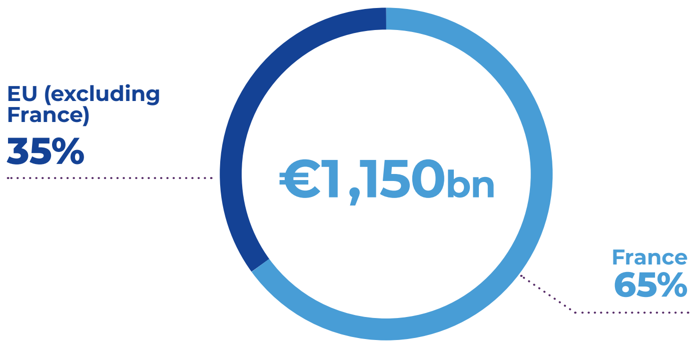
On the other hand, Institutional clients account for most assets under management in the discretionary mandates market, which can offer very specific investment solutions, such as asset-liability management, investments based on the separation of alpha and beta investment strategies, etc.

GRAPH 25. Nationality of institutional clients



(Data to end 2023 - Source: AFG)

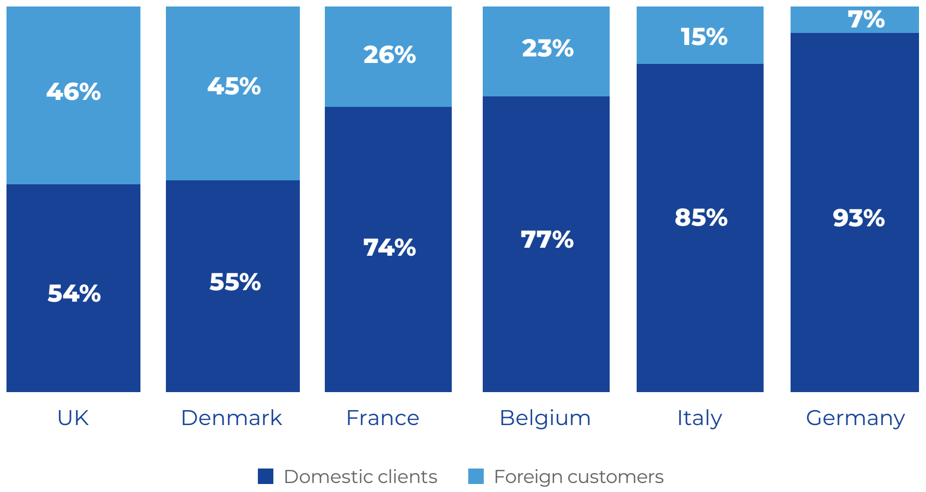
GRAPH 26. Nationality of retail clients



(Data to end 2023 – Source: AFG)

Countries like the United Kingdom and Denmark are more open to international clients, while Germany and Italy maintain stronger domestic orientations. **With 26% of total assets under management coming from foreign clients,** France positions itself in the middle of this spectrum.

GRAPH 27. Breakdown of assets under management (Investment funds and mandates) by client nationality



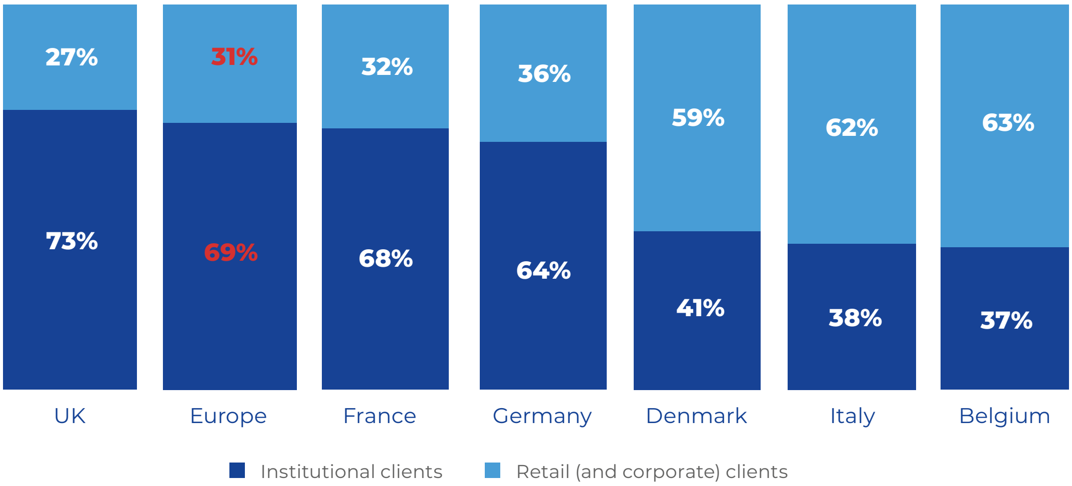
(Data to end 2023 - Source: Efama)

Insights on client typologies across Europe

The differences in client typologies across Europe highlight variations in institutional investor dominance, delegation practices, and retail investment trends:

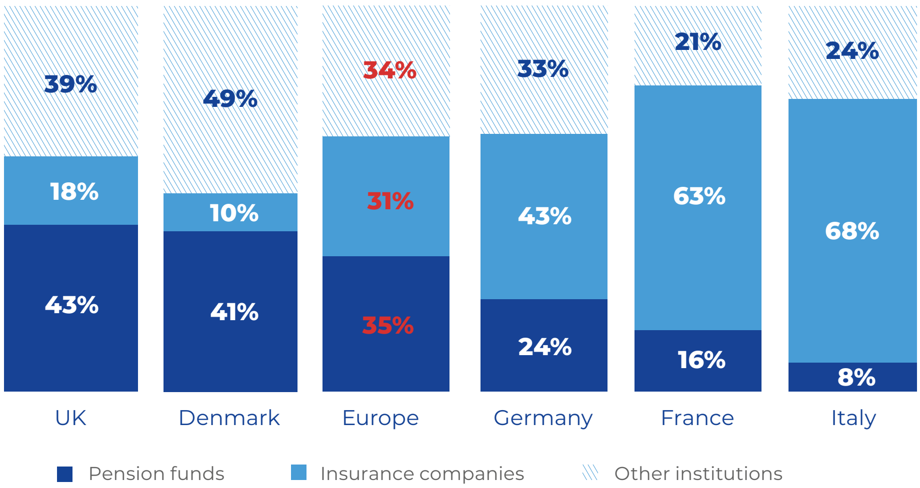
- Countries like **the UK, France and Germany are dominated by institutional clients.**
- **Markets such as Italy**, **Belgium** and **Denmark** cater more to **private clients**.

GRAPH 28. Breakdown of assets under management (Investment funds and mandates) by client type



(Data to end 2023 – Source: Efama)

GRAPH 29. Breakdown of assets under management (Investment funds and mandates) by type of institutional client



(Data to end 2023 – Source: Efama)

Variations in national pension systems, the prevalence of insurance products for retirement savings, and the ability of asset managers to attract international capital shape these distinctions.

CONCLUSION

Revitalizing European investment, a call to action

Asset management stands at the heart of financial ecosystems, connecting investors seeking to grow their assets with issuers in need of financing. **French asset management firms exemplify this vital role, with €3,231 billion invested in equities and fixed-income securities, driving economic growth and business development.**

Key contributions to the European economy

Three quarters of these investments are channelled towards EU issuers, demonstrating the industry's significant contribution to diversifying the financing sources available to European companies

- **Equity investments (€1,070bn):** A central driver of business growth, with 21% allocated to listed and unlisted SMEs.
- **Bond investments (€1,750bn):** A major source of funding for public and private initiatives, with 55% allocated to businesses.
- **Money market investments (€410bn):** Essential for economic liquidity, benefiting 93% of financial and non-financial companies.

Notably, 74% of these investments are directed toward EU issuers, underscoring the industry's critical role in diversifying financing options for European companies.

Despite these achievements, French equity investment lags behind countries with more developed long-term savings markets. In France and the EU, equity investment represents just 90% of GDP compared to 310% in the United States. This disparity risks undermining economic attractiveness, triggering capital outflows and prompting companies to relocate to regions with superior financing opportunities.

Adding to these concerns, the share of European equities in portfolios has plummeted from 52% to 32% over the past 15 years, while US equities have surged from 19% to 48%. This shift signals a loss of competitiveness and raises doubts about the EU's capacity to attract and retain investment capital.

Strategic priorities for Europe

To reverse these trends and enhance the appeal of European assets, bold and immediate action is essential:

- **Favorable tax and regulatory policies:** Simplify frameworks to incentivize investment in European markets.
- **Promotion of investment opportunities:** Position European equities, particularly SMEs, as attractive options for global investors.
- **Capital market integration:** Unify capital markets to streamline investments and support technological and environmental transitions.
- **Europe's financial future hinges on its ability to foster a dynamic, competitive investment environment.** With targeted reforms and strategic initiatives, the EU can reclaim its position as a global investment leader, securing sustainable growth and economic resilience.

APPENDIX

A. EQUITY FINANCING

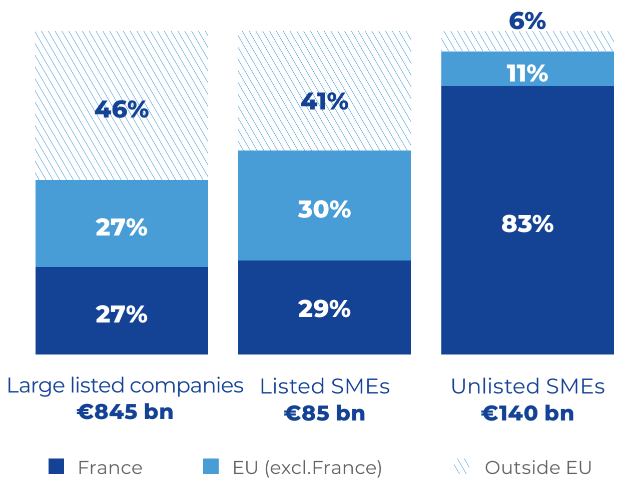
Investments in equities play a central role in the growth of companies. The French asset management industry contributes €1,070bn. Of this amount, 60% is invested in the EU, underlining once again the industry's commitment to European companies.

Of the direct investment allocated to equities, €845bn is invested in large caps: 27% of this goes to France, 27% to the rest of the EU, and 46% to markets outside the EU.

€85 bn is invested in listed SMEs and mid-caps, with 29% going to France, 30% to the rest of the EU and 41% to markets outside the EU.

Another key aspect of French asset management companies is their support for unlisted SMEs, with €140 billion invested directly. Here, 83% of capital is invested in France, 11% in the rest of the EU, and 6% in markets outside the EU.

GRAPH 30. Breakdown of equity investments by geographic region and type of issuer



(Data to end 2023 – Source: AFG)

B. BOND FINANCING

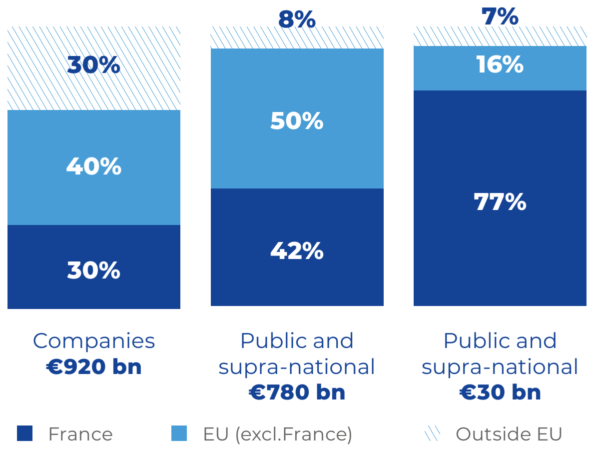
Bonds are a major support for public and private investment in France and the EU. French asset management companies invest €1,750 billion in bonds. 81% of these investments are made within the EU.

Direct investments in bonds fall into three main categories. Corporate bonds accounted for €920 billion, 30% of which was invested in France, 40% in the rest of the EU and 30% in markets outside the EU.

Investments in public and supranational bonds, amounting to €780 billion, are also mainly invested in the EU, with 42% in France, 50% in the rest of the EU, and 8% in markets outside the EU.

Regarding private debt, although it accounts for a smaller portion of direct bond investments at €50 billion, it shows a strong concentration in France with 77% of assets, followed by 16% in the rest of the EU, and 7% in non-EU markets.

GRAPH 31. Breakdown of bond investments by geographic region and type of issuer



(Data to end 2023 – Source: AFG)

C. MONEY MARKET SECURITIES FINANCING

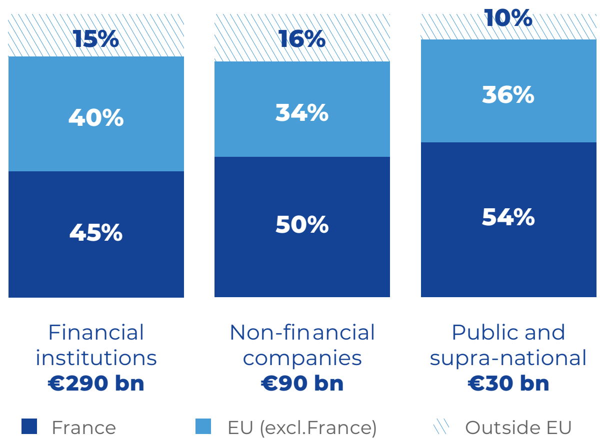
The money market plays an essential role as a provider of liquidity to the economy. French asset management companies invest €410 billion directly in money market assets. Of these investments, 85% are concentrated in the EU.

Investments in money market securities are mainly spread across three sectors. Financial institutions account for the majority, with €290 billion invested, of which 45% in France, 40% in the rest of the EU and 15% outside the EU.

Non-financial companies received €90 billion in monetary investments. Of this amount, 50% is invested in France, 34% in the rest of the EU and 16% outside the EU.

Finally, 30 billion euros are invested in public and supranational securities. The geographical breakdown shows that 54% of these investments are allocated to France, 36% to the EU outside France, and 10% to non-European markets.

GRAPH 32. Breakdown of money market investments by geographic region and type of issuer



(Data to end 2023 – Source: AFG)

Survey methodology

The AFG conducted a survey of its members to find out about the allocation of portfolios managed in France in the form of management mandates and investment funds. In particular, the survey sought to collect detailed information on **the nature and geographical origin of issuers by type of financial instrument** – equities, bonds and money market securities – invested in the portfolios.

At the end of 2023, the 78 asset management companies responding to the survey had a combined total of €3,158 billion under management, divided between €1,226 billion in management mandates and €1,932 billion in investment funds.

TABLE 1. Breakdown and representation of respondent asset managers

Breakdown of AMCs by AUM	Aggregate AUM of respondents		Representativeness of respondents
	€bn	%	
More than €100bn	2,221	70.0	100 %
Between €50bn and €100bn	458.4	14.5	68 %
Between €15bn and €50bn	396.4	12.6	57 %
Between €5bn and €15bn	50.6	1.6	22 %
Between €1bn and €5bn	34.9	1,1	16 %
Less than €1bn	6.7	0.2	7 %
Total	**3,158**	**100**	**76 %**

(Data to end 2023 – Source: AFG)

To complete the information, an extrapolation was made for the allocation of mandates – totalling 270 billion euros – and for the allocation of foreign investment funds – totalling 225 billion euros. The allocation of assets in French investment funds managed by non-respondent asset management companies was completed using aggregate data on their portfolios provided by the Banque de France, amounting to €594 billion.

Overall, the analysis of the allocation of portfolios managed in France was carried out on assets of 4,247 billion euros, i.e. more than 90% of assets managed in France, broken down as follows:

1,496 billion in management mandates, 1,910 billion in French investment funds and 841 billion in foreign investment funds. Outstanding financial instruments – equities, bonds and money market securities – invested in these portfolios totalled €3,231 billion.

TABLE 2. Analysis of the allocation of portfolios managed in France

	Investment funds		Discretionary mandates		Total	
	€bn	%	€bn	%	€bn	%
Equities	942.7	34	129.6	9	1,072.3	25
Bonds	620.8	23	1,128.1	75	1,748.9	41
Money market securities	385.2	14	24.4	2	409.6	10
Investment fund shares	464.7	17	161.8	11	626.5	15
Real assets (real estate...)	180.8	7	22.7	2	203.5	5
Others (cash, derivatives...)	156.3	6	29.5	2	185.8	4
Total portfolio	**2,750.5**	**100**	**1,496.1**	**100**	**4,246.6**	**100**
Inc. Total direct holdings (equities, bonds, money market)	**1,948.7**	**71**	**1,282.1**	**86**	**3,230.8**	**76**

(Data to end 2023 – Source: AFG)

Etudes Eco

The French Asset Management Association (AFG) represents and advocates for the role of asset management in shaping the French economy.

It counts over 440 members, including 340 asset management companies, which collectively manage 90% of assets under management in France.

AFG actively supports the growth of the French asset management industry for the benefit of savers, investors, and businesses.

AFG is dedicated to promoting stable, efficient, and competitive regulation, with a strong focus on helping individuals finance their life goals while channelling private savings towards businesses in transition.

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Annex 3 – Pitfalls of simple and low-cost products

To boost competitiveness and productivity of the EU Economy, the European commission is considering various proposals, including the idea of "*mobilizing savings more effectively, notably by supporting retail participation in capital markets through simple and low-cost saving and investment products*". **AFG wants to caution against the risks associated with so-called *low-cost* products**, which often divert capital outside the EU, worsening the underinvestment in EU companies.

Prioritizing "low cost" investing would undermine key EU objectives, such as funding SME growth, sustainable infrastructure, defence and transitions. AFG supports ***fair cost* products**, that ensure diversification, quality, and value for investors, noting that costs have already strongly declined.

Value for Money should focus on ensuring products have a fair price, not a low price. Simple investment products already exist, and introducing a new *simple* product could weaken the globally recognised UCITS brand while increasing regulatory costs and creating confusion among retail investors.

❖ **"SIMPLE" INVESTMENT PRODUCTS ARE ALREADY AVAILABLE FOR RETAIL INVESTORS**

There is no need to create or specifically promote "simple" investment products, as the vast majority of UCITS are already classified as non-complex under existing regulations.

This UCITS "brand" is already well known among retail investors, highly successful and distributed worldwide. The EU should leverage on this competitive advantage.

❖ **"FAIR COST", ENSURED BY A HOLISTIC VFM APPROACH, IS A FAR MORE RELEVANT OBJECTIVE THAN "LOW COST"**

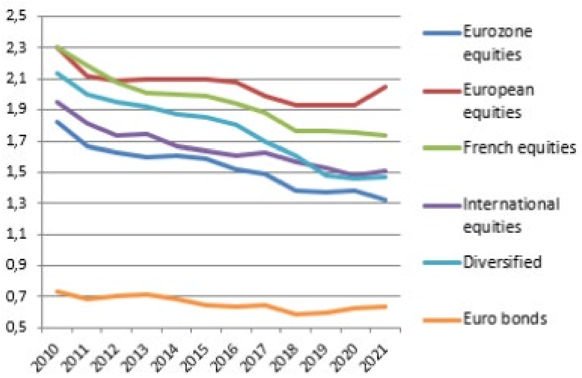
- **Costs are not a barrier to retail investors' participation in capital markets**

There is no evidence that retail investors refrain from investing in capital markets due to high costs. Moreover, it is important to note that ESMA data shows a constant decline in product prices over recent years, driven by competition rather than price regulation. For instance, between 2017 and 2023, the average ongoing cost of equity UCITS fell from 1.54% to 1.40%, while the ongoing cost of bond UCITS declined from 1.03% to 0.86[1]%.

At the French level, AMF has shown that the cost of French funds has significantly decreased over time:

[1] Source : ESMA Market reports / Cost and performances of EU Retail Investment Products.

Change in average ongoing fees of French funds, from 2010 to 2021, by AMF category, in %[2]

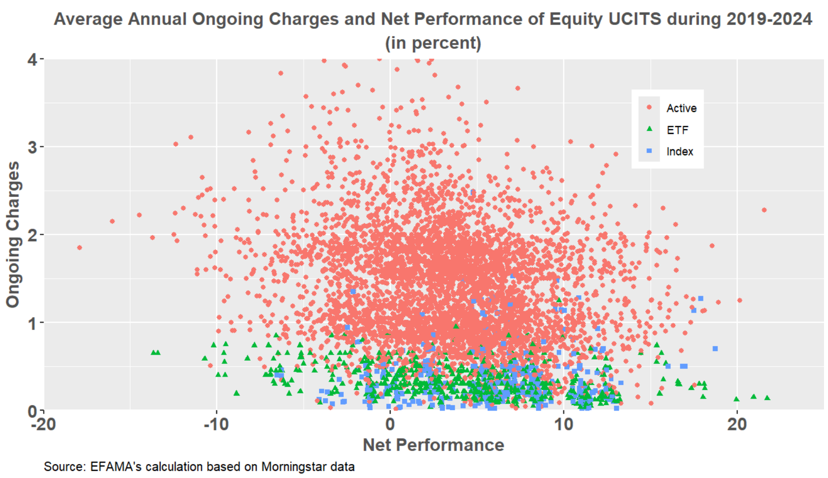


	2010	2021	Decrease
French equities funds	2.3%	1.7%	*-26%*
Balanced funds	2.1%	1.5%	*-29%*

- **Low-cost is not always in investors' best interest**

The cost of an investment product is just one selection criterion among many others and should remain so. Factors such as sector or geographic exposure, liquidity requirements, expectations in terms of capital guarantees, non-financial characteristics, and the quality of reportings, among others, should also be considered in the analysis to align with the investor's preferences and objectives.

Moreover, lower costs do not necessarily translate into higher net performance. In fact, EFAMA observes that there is no clear linear trend between lower costs and higher performance (cf chart below).



[2] Source: The AMF household savings observatory newsletter (April 2023). Perimeter and methodology: French funds open to the public (around 6.000 funds) ; the averages are calculated without weighting by fund size.

- **<u>Financing the European economy requires a wide range of diverse investment products, not an excessive focus on costs</u>**

Effectively financing the European economy in all its dimensions requires mobilizing the savings of European citizens through a wide range of investment products, including:

- **Funds that finance SMEs**, such as private equity and small caps funds
- **Thematic funds** (e.g., climate, water, nutrition, aging population, demographics)
- **Sector funds** (e.g., healthcare, utilities, energy, communication services)
- **ESG Funds**
- And more.

<u>These investment products incur additional costs related to for instance research, due diligence and issuer selection</u>

A purely cost-centric approach would hence put these products at risk, which would be detrimental both to the European economy and to retail investors.

Regarding small caps funds, investing in large cap companies is easier due to greater data availability, and better coverage, not only by actively managed funds but also by index funds. In this context, it is crucial to safeguard SME financing, which has already been irremediably negatively impacted by the unbundling of research under MIFID 2.

- **<u>Conclusion: "*fair prices*", not "*low cost*", should be ensured by a strong and decentralized value for money approach</u>**

AFG fully supports the concept of Value for Money (VFM) as outlined in the Retail investment strategy. However, for all the reasons mentioned above, this VFM approach should be holistic and ensure "*fair prices*" rather than merely focusing on "*low prices*".

AFG supports a strong and decentralized approach to Value for Money (VFM), based on peer grouping and grounded in the following principles:

- ✓ **VFM should cover the entire value chain**, with asset managers responsible for manufacturing costs (excluding inducements paid to distributors) and distributors responsible for distribution costs (including inducements). The VFM framework should also apply to the cost of wrappers such as those used for IBIPs.
- ✓ **VFM should consider all relevant quantitative and qualitative criteria.**
- ✓ **Asset management companies should bear responsibility** and establish their own internal VFM policy and develop peer-groups based on objective criteria, using tools like the European Fund Classification developed by EFAMA. This fund classification will also be a valuable tool for NCAs.
- ✓ **The entire VFM process should be documented**, subject to control (by both internal independent functions and NCAs), and include reporting mechanisms.

AFG notes that centralized and "one size fits all" benchmarks established by national or European authorities are not an appropriate tool to ensure investor protection and increase retail investor participation. At the French level, ACPR (French bank and insurance supervisor - NCA) has already established a national benchmark for unit-linked funds. It is based on a study published by France Assureurs (French association representing insurance companies) that presents the average ongoing costs and performance of several peer-groups of funds.

This benchmark has several drawbacks, including insufficiently granular peer groups. For instance, the "equity" category does not distinguish between index funds and actively managed funds, nor between small caps and large cap funds. **One immediate and concrete consequence is that many small caps funds have been dereferenced by insurance companies, based on biased comparisons.** In the future, other categories of funds, such as actively managed funds or those with strong ESG commitment, could also be adversely affected by this benchmark, drastically reducing the range of products available to retail customers and depriving them of potential performance. **Hence benchmarks should be removed from the Retail Investment Strategy.**

- **STREAMLINING THE INVESTOR JOURNEY IS KEY**

To encourage retail investors' participation, it is key to simplify the investment process. Unfortunately, the Retail Investment Strategy takes the opposite approach by introducing new tests and complicating existing ones. In particular, the best interest test and the inducement test, add unnecessary complexity without providing real benefits. These should be removed, and the PRIIPs KID should not be made more complex, on the contrary, it should be simplified to avoid displaying future performance scenarios or unrealized transactions costs that no one understands for instance.

Annex 4 – Addressing the SIU Ecosystem: data, benchmarks, ESG ratings providers

Note on addressing the SIU ecosystem: data, benchmarks, ESG data product service providers

1. <u>Where do we stand?</u>

There is a need to define the underlying ecosystem of the saving and investment union (SIU)[1]. Indeed, beyond traditional actors (financial and infrastructure market participants) SIU involves an entire ecosystem of non-financial players: rating agencies, data providers, creators of indices and benchmarks.

The financing of the economy and of the great transitions (sustainable, digital, geopolitical, demographic) require **affordable <u>and</u> reliable information** for all participating actors: investors (households and corporates) and authorities. They facilitate the channeling of funds into the rights projects/companies. Therefore, **both financial and ESG information are crucial for ensuring competitivity, stability, trust, and transparency of the EU markets**.

However, EU financial markets' participants heavily rely on a **few providers,** to provide their services, fund the green transition and to comply with EU regulations. These actors play a crucial role in the proper functioning of European financial markets, and are **sometimes unregulated/unsupervised**, and **in most areas, predominantly non-European**.

This concentration on insufficiently (if not) regulated providers raises concerns about EU competitiveness, self- sufficiency and supervision, leading to a lack of transparency and reliability on key aspects of the EU investment value chain (client information, investment allocation, supervision, transparency, and reporting…). This situation is particularly true for ESG data, that may be modelled for a different market, posing a risk of misalignment with the EU objectives.

The market structure raises concerns about questionable commercial practices and soaring prices for financial and ESG data that are ultimately borne by European citizens.

This puts asset managers and other market participants at risk and increases the likelihood of accusations of <u>greenwashing</u>, while being accused of offering <u>overpriced</u> financial products. It affects EU competitiveness and financial market efficiency.

[1] See : "Strategic autonomy comes by Capital Markets Union", Fabrice de Marigny, 2024 https://encr.pw/LBID9

2. Main proposal to address the problem

The ecosystem of non-financial providers is wide, with regulated and unregulated areas depending on the type of information provided.

AFG wants to focus on the unregulated areas, especially on ESG data in the context of the CSRD (Corporate Sustainable Reporting Directive) review. Indeed, it appears that CSRD reporting thresholds should be widely raised according to the proposal of Omnibus directive, scoping out companies under 1,000 employees, i.e. 80% of the entities initially included. **This review is likely to substantially increase the reliance of investors on currently unregulated and systemic ESG data product service providers.**

Reliable and affordable financial and ESG data are essential for market efficiency, transparency, and sustainable investment. Yet, European financial market participants—including asset managers—are overly dependent on a handful of global data providers, acting as an oligopoly. This creates several risks:

- **Lack of supervision leading to weakening fight against greenwashing**: These providers operate outside the EU regulatory framework while providing key services to financial participants in the EU. They are not subject to any transparency requirement, notably on their ESG estimates' methodologies, data sources, and verification processes or conflict of interests, raising concerns on the reliability of their data (and in practice leading to actual failures).
- **Inconsistencies of the sustainable finance framework:** at their own level, financial market participants must legitimately abide by the rules set by SFDR (Sustainable Finance Disclosure Regulation) but today cannot get sufficient comfort on reliability of the ESG data products they buy to unregulated service providers.
- **Higher costs & inefficiencies**: Unbalanced market and lack of fee grid transparency drive up costs for European firms while being difficult to understand (or even to anticipate in financial participants' budgets), affecting EU competitiveness.
- **Misalignment with EU objectives**: Non-EU data models may not align with Europe's sustainability and economic goals.

Those past years, this situation has drawn increasing concern from regulators, including IOSCO, ESMA, and national authorities such as AMF, BaFIN, FMA and FCA. The European Commission's own 2021 study and the European Parliament's 2020 report also highlighted these challenges (***see our Annex below***)

Without proactive measures, the EU faces challenges in maintaining transparency and reliability within the SIU ecosystem. Regulatory frameworks for benchmarks, financial and ESG data product service providers are essential to prevent disruptions in the provision of critical market data and ensure the stability of EU financial markets.

A Regulation on ESG ratings providers has been adopted in 2024. Despite IOSCO Recommendations, ESG data product service provider are not yet included in the scope, posing a gap in regulatory coverage -which is even widening today as issuers' own obligations under CSRD are going to be reviewed, leading consequently to more reliance on ESG data product service providers' estimates. They are as critical as ESG ratings – if not more - in **investment decisions, financing of the economy, regulatory reporting requirements and in the fight against greenwashing.**

The ESG ratings providers Regulation includes a 5-years review clause on ESG data product service providers. We deem necessary to advance this review clause as, as it stands, any potential legislative proposal implementation is currently delayed for a minimum of 10 years.

To be noted that even regulated activities present clear weaknesses:

For instance, market data providers are regulated under MiFIR. The review of the text in 2024 went on the right direction to ensure fair prices, but ESMA's proposal of regulatory technical standards on key topics such as the principle of reasonable commercial basis raises concerns on the alignment between the level one and the level two of the legislation. For example, while the level 1 legislation correctly aims at ensuring prices charged by data providers to users are fair, the technical standards proposed at level 2 remain unclear, and not ambitious enough when it comes to the calculation of fees, cost and margins of market data. As long as value-based pricing is allowed, there is no possibility for the reasonable commercial basis to be respected.

The study "*There's No Market in Market Data*" published in early 2025 has underlined important market inefficiencies, impacting EU competitiveness. The study shows how stock exchanges have become increasingly dependent on market data revenues to offset declining trading revenues, leading to high costs and restrictive clauses in data usage contracts, ultimately hindering innovation and market growth, and therefore, investors and issuers.

Other proposals could include:

- Duty of transparency: Data providers should adhere to a duty of transparency, reducing opacity in their pricing policy, based on fair, reasonable, non-discriminatory and transparent (FRANDT) principles. It is in place in the EMIR Regulation and should be extended to other regulations. AFG fully supports ESMA's recommendation suggested in paragraph 235[2] for the European Commission to use its legislative power to create a level playing field between the market data providers subject to MiFIR 2 and those providers which are not in scope of MiFIR 2 (benchmark providers, ESG providers, credit rating agencies etc.).

[2] https://www.esma.europa.eu/sites/default/files/2024-05/ESMA74-2134169708-7241_CP_Package_on_the_MiFIR_Review_-_RTS_2__RCB_and_Reference_Data.pdf

- Clear EU regulatory requirements: Clear EU regulatory requirements for the creation and authorization of data providers are necessary to avoid disruptions in critical market data provision.

To conclude, SIU should be built on transparency of financial and non-financial activities and players. There is a striking similarity between the opacity of data providers and the Credit Ratings Agencies' situation before the 2008 crisis. The EU should take pre-emptive action to create a comprehensive regulatory framework for Financial and ESG information providers. There is no reason to keep this activity out of any Value for money.

Annexes

Consequences of the lack of the regulatory and supervisory framework for the provision of information: a challenge for sustainable and competitive European financial markets

- **the European Parliament in its 2020 annual report** on competition policy underlines the markets failures on data provision.
- **In ESMA Strategic Orientation 2020-2022**, the Authority stated its ambition to strengthen its reputation as the supervisory authority of credit rating agencies, critical benchmarks and data service providers, as underlined by its former Chair Steven Maijoor.
- **AMF/AFM support** a regulatory approach to create a transparency framework on ESG data (2020).
- **The EU Commission study** 2021 provides empirical data showing that methodologies vary between sustainable data product service providers, resulting in widely different results even when analyzing the same companies. In this context, the report concludes that actually, few ESG data product service providers disclose the underlying data sets, indicators or weightings applied. The report concludes "*a lack of transparency leads to a lack of understanding as to what the rating represents and presents a risk that investors will take sustainability-related ratings at face value*", however, data providers do not take any responsibility for these gaps nor the risk of *greenwashing.*
- **IOSCO report** on Environmental, Social and Governance (ESG) Ratings and Data Products Providers (2021) points at the fact that the non-regulation of ESG data product service providers leads to a risk of greenwashing, misallocation of assets and a lack of trust in the data products' robustness or relevance.
- **BaFIN 2024** report carrying out a market study to survey and Handling of ESG data and ESG rating procedures by capital management companies, underline high cost and poor quality of service

- **2024 ESMA's report on greenwashing** underlined the "challenge" for NCAs to "*access to relevant and high-quality comparable data*" and that "***greenwashing can also arise from the overall poor transparency of methodologies regarding ESG data (e.g., assumptions and estimates used for providing ESG data points like GHG emissions) due to the use of external data providers***"

2024 FCA study on competition and markets failure, criticizes both data and benchmark providers' practices: "*Operating margins earned by established benchmark administrators were around 56% on average during the analysed period, exceeding 60% in certain instances. In contrast, those of challengers and new entrants were significantly lower and inconsistent when compared with established benchmark administrators (around 11% on average). The return on capital achieved by the majority of the established firms was consistently above the cost of capital, largely outperforming challengers and new entrants.* ***These results are consistent with a degree of market power being held by most established benchmark administrators.***

In summary, there is very limited scope for competition 'in the market' where benchmarks are used for pricing financial contracts, and we found that competition 'for the market' once an industry standard is established is weak. […]. This means competition may provide limited incentives for benchmark administrators to lower prices, improve quality or innovate. This can be exacerbated by firm behaviours or practices which use their market power to hamper competition."

Jurisdictions such as the UK, Singapore and Hong Kong have already identified the risks stemming from a lack of regulation of ESG data product service providers and have all put in place Codes of Conduct that set out a number of provisions to ensure transparency and trust in the ESG data market.

Annex 5 - Sustainable finance framework: Financing the ESG transition of the EU economy

SUMMARY

The European Commission is preparing to launch an "Omnibus" initiative aimed at simplifying several key European regulations, namely the CSRD, the European Taxonomy, and the CS3D. Through this statement, the French Asset Management Association (AFG) wishes to reiterate the key elements of its position regarding this upcoming initiative.

First and foremost, the AFG wishes to highlight the importance to place European Competitiveness at the core of decision-making to align with the European Commission's 2024-2029 Agenda, as highlighted in the Draghi report. Inclusive economic growth, must be built on four pillars, one of which is sustainable competitiveness. In this vein, AFG invites the European Commission to uphold these fundamental principles as the foundations of the European Union's strategy. They will be key to strengthen its economic competitiveness and preparing for the transition.

AFG believes that meeting these objectives will depend on fulfilling the following conditions:

- **Preserving the principle of extraterritoriality for non-European companies** operating within the EU. This founding principle is key to ensuring a level playing field and preventing European companies from being placed at a competitive disadvantage.
- **Retaining the double materiality principle in corporate analysis. This principle is a defining feature of the European framework and a critical challenge for stakeholders.**
- **Maintaining the original objectives of the targeted regulations under the Omnibus initiatives, namely harmonization and credibility of European non-financial data. This is key to supporting the EU's** climate neutrality goals and facilitating the transition strategies of European economic actors.
- **Simplifying data requirements for issuers and their value chains**, ensuring that reporting obligations are limited to information that is truly essential for decision-making of issuers and investors.
- **Ensuring a properly sequenced approach to regulatory revisions, considering the broader impact of this simplification on all sustainable finance-related regulations. In particular**, the SFDR reform can only reach its goal once the revisions to the CSRD/CS3D and the Taxonomy regulation are completed

<u>**Regarding the CSRD, AFG highlights**</u>:

- The importance of maintaining the ambition of the regulation to improve data availability and quality. This is essential for integrating ESG considerations into investment decisions, preparing robust investor reports, and protecting consumers (under SFDR);

- The need for simplification and harmonization of pivotal regulatory texts to ensure a consistent application by all actors, by:
    - Maintaining the principle of extraterritoriality.
    - Reducing reporting requirements to focus on material issues, simplifying the granularity of data points, consolidating certain indicators, and clarifying expectations for qualitative data.
    - Supporting actors, particularly auditors, in implementation.

- The need to address the specific challenges of asset managers as reporting entities:
    - By prioritizing the application of sector-agnostic standards rather than developing sector-specific standards.
    - By clarifying the topics of "materiality analysis" and "value chain».
    - By considering existing regulations such as SFDR or national regulations (e.g., Article 29 LEC) to ensure proper coordination and avoid duplications.

<u>The above-mentioned principles apply equally to the Taxonomy regulation. Additionally, AFG identifies the following topics to bring forward:</u>

- The need to expand the range of activities covered by environmental objectives and other goals.
- The need to simplify reporting tables defined by Article 8.
- The need to establish robust estimation standards for companies not subject to the Taxonomy (outside the EU or publication thresholds), with clear "safe harbors" to facilitate their use by the financial sector.
- The need to simplify the "Do No Significant Harm" (DNSH) principle to reduce reporting complexity and ensure uniform application.
- The need to simplify the calculation of GAR/GIR ratios, particularly regarding the numerator/denominator asymmetry.

<u>Regarding the CS3D, AFG emphasizes two main aspects:</u>

- Postponing the directive's implementation pending an in-depth impact assessment on the competitiveness of European companies.
- The deletion of the review clause in Article 36(1), which discusses introducing additional requirements targeting only financial services and investment activities of regulated financial undertakings, whereas there is no reason for the latter to be treated differently from other undertakings.

AFG also highlights:

- The need for European-level harmonization of criteria characterizing negative impacts as real and severe.
- The fact that excessive and redundant remediation measures contradict the objective of simplification and of reduction of the administrative burden for European businesses.
- The need to propose equivalency mechanisms for companies subject to this Directive to reduce redundant controls and verifications.

KEY ISSUES

AFG considers essential that the Omnibus initiative offers solutions for consistent simplification, while considering the impact on other Green Deal regulations, such as the SFDR, without compromising the principles behind these legal initiatives. Ensuring this coherence is vital for maintaining the ambition of the European Green Deal.

AFG underscores its key positions:

- Maintaining extraterritoriality to ensure data quality with a double materiality approach for non-European companies operating in the EU.
- Supporting the original objectives of these regulations: harmonizing and ensuring the reliability of European non-financial data to facilitate the transition to a more sustainable economy.

Moreover,

- Simplification should focus on data requirements for issuers and their value chains, clarifying interpretation areas, and ensuring consistent implementation. This includes simplifying reporting standards and tables to put forward the most useful information for decision-makers.
- Simplification proposals must consider impacts on all sustainable finance-related texts to ensure regulatory consistency and maintain operational efficiency for all actors.

Often, the obligations of various stakeholders (financial and non-financial) are interdependent, necessitating a holistic approach to ensure coherence in non-financial information publication and applicability. AFG warns against potential risks stemming from the Omnibus initiative, such as the (in)capacity to implement SFDR/MiFID/IDD sustainable preferences if CSRD thresholds are revised, the Taxonomy regulation is reopened, or company reporting expectations are excessively lightened (e.g., on PAIs).

This holistic approach is particularly important for cross-cutting themes like climate, where access to key indicators is vital for investors to assess companies' climate transition plans. Proposed indicators in this document are currently partially and inconsistently covered by existing texts.

Furthermore, regulatory reviews must follow a logical sequence. For example, SFDR Levels 1 and 2 cannot be effectively revised until the CSRD/CS3D and Taxonomy reviews are completed. Financial actors have faced inconsistencies and data unavailability, affecting their obligations.

To tackle these challenges, stakeholders, and policy-makers, including all relevant services of the European Commission, must work together in a coordinated manner. Investors, given their role in financing the European economy's transition, must be fully involved in discussions.

AFG's recommendations aim to support the Green Deal objectives, the EU climate neutrality goals and its competitiveness by aligning the whole sustainable finance value chain The European double materiality approach is crucial for achieving environmental goals and reflects financial actors' long-term risk and opportunity analysis of environmental and social factors.

CSRD

1. **Data availability and quality.**

2. **Simplifying and harmonizing pivotal regulatory texts is critical for ensuring consistent application and maintaining operational efficiency for all actors.**

3. **Key points for reporting entities under SFDR and CSRD:**

1. **Data availability and quality are critical issues in the Omnibus initiative. Financial actors need broad, high-quality, and comparable data to reduce reliance on data providers. Such data is essential for investors to analyze companies' climate transition plans.**

   The AFG emphasizes the importance of ESG data to produce reliable non-financial reports, including SFDR PAIs. These indicators measure investment quality, enabling savers to compare investment products. Access to raw data at the issuer level is crucial for achieving this objective and protecting consumers.

   (i) Maintaining extraterritoriality is vital to (i) provide investors with high-quality data under double materiality for a significant portion of their investment universe (notably large U.S. companies) and (ii) defend European companies' competitiveness by ensuring fair play with non-European competitors.

   AFG suggests resolving unequal treatment by requiring non-European groups (operating in the EU) to meet the same consolidation requirements, even if not listed in the EU.

   (ii) European investors invest in companies of various sizes. Maintaining access to issuer-reported data based on comparable standards is crucial. For instance, companies with fewer than 1,000 employees represent a significant portion of portfolios based on AFG's member data.

   (iii) AFG supports the ESAP (European Single Access Point) project, which is key to implementing various regulations and reducing investor dependence on data providers.

2. **Simplification and harmonization of regulatory key texts are essential to ensure regulatory consistency, allowing for a coherent application and maintaining operational functionality for all stakeholders.**
   - Currently, understanding and interpreting regulatory expectations is often complicated by the overlap of Level 2 and Level 3 texts, which are not always easily accessible. Furthermore, certain requirements are not sufficiently clear, leading to complex and inconsistent implementation. Lastly, there is a real need for support, training, and a gradual and flexible approach in the implementation of the CSRD, particularly concerning auditors. It is therefore essential to simplify access to these regulatory provisions and provide training to all relevant stakeholders, including obligated companies, auditors, supervisors, and the financial sector, to enable a less complex and burdensome, yet more comparable, implementation across stakeholders within the same sector. The role of auditors as facilitators remains a critical issue.

- It is necessary to preserve the ambition of the regulation to support the transformation of issuers, ensuring quality, comparability, and adequate coverage while considering opportunities to reduce reporting burdens by involving issuers.

Proposals could include:

a. Limiting reporting requirements to the most material issues.
b. Simplifying the granularity of data points while preserving existing reporting themes. Indeed, investors make decisions at an aggregated issuer level. Reviewing the requested level of granularity would reduce the burden on issuers without penalizing investors (e.g., data by factory location does not seem essential).
c. Consolidating indicators and clarifying expectations for qualitative information. Today, CSRD reporting is largely qualitative, with redundant information often required due to unclear ESRS expectations. Clarifying these expectations would simplify preparation and focus information on the elements most useful for decision-making by various stakeholders. For example, an issuer's climate governance could be covered in ESRS 1 ("General Disclosures" – governance overview, including Board composition), ESRS E1 ("Climate Change" – focus on climate governance), and ESRS G1 ("Business Conduct" – climate lobbying activities).

- Any changes to the scope of data or companies that reduce the reporting obligations of entities under the CSRD and/or the Taxonomy Regulation as part of the Omnibus initiative must be evaluated in terms of their impact on financial institutions' reporting. To be fully consistent, the proposal should also amend regulations such as SFDR, CRR, CSRD, BMR, PRIIPs, and MiFID/IDD to align or reduce requirements in a coherent and fair manner.
  Specifically, PAIs reported by investors under SFDR are directly linked to data points covered by CSRD. However, to date, AFG notes that data provided by suppliers for certain PAIs remains inconsistent due to the absence of issuer reporting on some indicators, leading to reliance on estimates. This highlights the need for direct access to reliable and consistently reported data, which CSRD should facilitate. For example, based on data collected by the AFG from a sample of members for the MSCI Europe IMI and MSCI World indices:

    - From one provider to another, values for certain PAIs can vary significantly, with, for instance, an average score for the same index ranging from 4% to 48% for activities negatively affecting biodiversity and sensitive areas, and from 0% to 25% for companies with systems to monitor compliance with the UN Global Compact and OECD guidelines.
    - Certain PAIs, such as those related to water emissions (PAI 8) or the unadjusted general pay gap (PAI 12), have very low minimum coverage rates (up to 0.5% and 8.60%, respectively, for the sample).

3. Reassessing Reporting Challenges under SFDR and CSRD

Harmonizing regulatory reference texts is crucial to avoid duplicating reporting requirements between SFDR and CSRD for financial institutions.

AFG supports SFDR entity-level disclosures as they allow investors to better understand the sustainable ambition and intensity of financial market participants and contributes to driving change at the entity level.

Given that the CSRD disclosure framework should cover the information required under Articles 3, 4(2)(b), and 5 of the SFDR with consistent requirements for all companies and sectors, there is an evident need to streamline entity-level disclosure requirements under both SFDR and CSRD.

AFG is working to ensure the recognition of asset management companies' specificities (i.e., primarily managing third-party investments rather than proprietary investments), so that entity-level reporting is targeted, relevant, and comparable, focusing on information and indicators within the company's control, thereby enabling the setting of objectives as required by CSRD.

Thus, efforts should primarily focus on the technical and practical application of sector-agnostic standards rather than prematurely developing sector-specific standards that would create additional, specific reporting requirements.

To this end, regulators, in close partnership with the industry, should take the time to:

- Develop guidelines to address issues concerning the "materiality assessment" and "value chain" analysis in connection with sectoral specificities. Specifically, for the financial sector, the notion of the value chain should be better defined, and specific characteristics should be considered (e.g., an asset manager manages on behalf of third parties and does not own the investments; hence, their control and leverage over indicators are more limited).
- Consider existing regulations (e.g., SFDR reporting, national climate reporting, prudential reporting) to avoid duplication, minimize reporting burdens, and focus on truly relevant information.

Taxonomy

1. **Issue related to limited sectoral coverage**
2. **Simplification of reporting tables**
3. **Companies not subject to the Taxonomy (outside the EU/below publication thresholds)**
4. **Complexity of the DNSH**
5. **Simplification of GAR/GIR**

The Taxonomy currently serves as a common and essential framework for the entire value chain. This text allows for the identification of activities classified as sustainable, provided they respect human and social rights guaranteed by international law while contributing substantially to one of the six environmental objectives.

The principles set out under the CSRD also apply to Article 8 of the Taxonomy (reporting).

Additionally :

1. **Issue Related to Limited Sectoral Coverage**

   The current European Taxonomy is exclusively linked to environmental objectives. In the context of SFDR, financial actors need to be able to evaluate all ESG issues. This requires expanding the activities currently covered by environmental objectives and potentially extending them to other objectives beyond the environment.

   A focus on operationalization and clarity of the technical criteria, based on scientific foundations, will also be essential to ensure homogeneous market implementation, thus allowing for effective comparability for investors.

2. **Simplification of Reporting Tables**

   The reporting tables defined by Article 8 of the Taxonomy are complex and highly detailed for both financial and non-financial actors. It would be appropriate to review these tables to focus on the most decision-relevant data points without undermining the principles and integrity of the Taxonomy.

3. **Companies Not Subject to the Taxonomy (Outside the EU/Below Publication Thresholds)**

   It is necessary to define robust estimation standards for companies not subject to the Taxonomy, enabling their use by the financial sector without the risk of rejection by auditors and supervisors. This will be essential for the Taxonomy to be more broadly adopted, including setting alignment objectives at the fund level.

4. **Complexity of DNSH**

   The “Do No Significant Harm” (DNSH) principle of the European Taxonomy, which ensures that no significant harm is done to other environmental objectives, remains complex to interpret and implement. This ambiguous interpretation creates risks of non-harmonized and complex application for preparers.

5. **Simplification of GAR/GIR**

   The AFG supports simplifying the GAR (Green Asset Ratio) and GIR (Green Investment Ratio) for coherence and gradual implementation without eliminating them. For example, harmonizing the numerator and denominator could be considered.

Transition Plans

AFG has been working with its members for several years on the analysis of transition plans. It is therefore important to highlight here the indicators identified as essential for assessing the credibility of a transition plan during our work. As illustrated in the table, many of these indicators will be reported under the CSRD and the Taxonomy. Any challenge to the latter, whether in terms of content or scope, would undermine investors' ability to robustly evaluate the credibility of transition plans.

Conversely, access to comparable reported data will promote the development of products specifically focused on the transition and make shareholder engagement more impactful. This would enable discussions to concentrate on climate ambition and its integration into a company's strategy and operating model, rather than on access to data.

I. Strategy	Formalization of a climate strategy (yes/no)	ESRS E1-1 §14
	Alignment of the plan with a trajectory achieving net-zero by 2050 / well below 2°C while striving for 1.5°C	ESRS E1-1 §15
	Total gross emissions (tCO2eq.) = Gross emissions from Scope 1 + Scope 2 + Scope 3	ESRS E1-6 §44
	Decarbonization targets: % of emissions (broken down by scopes) covered by decarbonization objectives	-
	External third-party validation of decarbonization objectives	-
	Progress level of the objectives	-
II. Means implemented	Share of revenue generated from low-carbon activities (for the EU: aligned with the Taxonomy)	ESRS E1-1 §16(e)
	Share of revenue generated from carbon-intensive activities	-
	Share of investments (CAPEX) in activities derived from low-carbon processes (for the EU: aligned with the Taxonomy)	ESRS E1-1 §16(e)
	Share of investments (CAPEX) derived from carbon-intensive activities	-
III. Governance	Integration of criteria related to achieving the transition plan into the variable compensation of senior executives	GOV 3 - ESRS 2
	CSR manager (or equivalent) at the executive committee & board of directors' level	ESRS 2-GOV1

CS3D :

In the context of the Omnibus initiative, and more specifically concerning Directive 2024/1760/EU on corporate sustainability due diligence directive (CS3D), AFG's key messages are as follows:

- **Global postponement of the CS3D Directive**

  AFG is in favor of a global postponement of the implementation of the CS3D Directive, which should be subject to the completion of an in-depth impact assessment, focusing in particular on impacts on the competitiveness of European companies.

- **Deletion of the review clause** (Article 36 (1))

  AFG considers that this review clause is inappropriate, as it deals with the possibility of introducing additional requirements (extension to the downstream chain of activities) targeting only the provision of financial services and the investment activities of regulated financial undertakings.
  In this respect, there is no reason for financial undertakings to be treated differently from other undertakings, especially as Recital 26 of the Directive recommends that "as regards regulated financial undertakings, only the upstream but not the downstream part of their chains of activities should be covered by this Directive".

  Regulated financial undertakings already comply with an existing and comprehensive set of regulations dedicated to sustainable finance, including regarding due diligences on the portfolio investments they manage. Implementing the CS3D Directive would potentially lead to **regulatory overlaps** (notably with the Shareholders' Rights Directive II and the notion of engagement, the SFDR Regulation and the consideration of social and environmental adverse impacts, AIFMD and UCITS Directives setting up due diligence processes and integrating sustainability risks), **undermining the very simplification objective of the draft omnibus directive**.

  AFG believes that concerns specific to the financial sector related to financing and investment activities are/should be addressed within the framework of sustainable finance regulation and that related impacts should be analyzed in the context of review of the said regulations.

AFG also wishes to draw attention to the following key points in the text:

- **Notion of actual and severe adverse impact**

  This concept is central to the CS3D Directive but not yet complete, as the Directive does not provide for a precise and sufficiently objective definition.

In order to ensure the competitiveness of the European companies, we believe that it is essential, before the Directive comes into force, to consider harmonizing, at the European level, criteria for characterizing impacts as adverse, actual and severe. Such harmonization could involve a mandate for supervisors (via Article 28) to publish a list of the most significant impacts (or "controversies") that have been identified at global level as being important for investors to consider when identifying actual and severe adverse impacts linked to their activity.

Indeed, without harmonization and "objectification" of these situations, regulated financial undertakings, particularly asset managers, would be obliged to define those impacts themselves at their own level, which would lead to differentiated treatments of controversies having actual and severe adverse impacts, and potentially confusion prejudicial to the credibility of the due diligence European regulatory framework.

AFG believes that the key criteria to harmonize would be the veracity of the impact and its severity.

- **Excessive and redundant multiplication of remedies measures, overexposing companies to legal, regulatory and reputational risks**

  The CS3D Directive's current framework includes an excessive layering of remedies, namely:
    - Meaningful engagement with stakeholders (Article 13)
    - Notification mechanism and complaints procedure (Article 14)
    - Substantiated concerns addressed to supervisory authorities (Article 26)
    - Reporting of breaches (Article 30)
    - Penalties (Article 27)
    - Civil liability of companies (Article 29)

  AFG considers that this stacking of remedies measures contradicts the omnibus package's objective of simplification and of reduction of the administrative burden of European companies.

- **Proposal of equivalence to reduce redundant checks and verifications**

AFG suggests introducing an equivalence mechanism for companies subject to the CS3D Directive. Further to this provision, compagnies subject to the CS3D Directive would not require additional due diligence when they are part of the chain of activities, which would significantly lighten the due diligence burden.

Annex 6 - AFG's key messages on supervision challenges to contribute to the success of the Savings and Investments Union

Note on better regulation and supervision challenges

AFG's key messages on supervision challenges to contribute to the success of the Savings and Investments Union:

Better regulation

- ✓ tackle regulatory burden by implementing competitiveness checks before any regulatory initiative or review
- ✓ simplification and reduction of administrative and regulatory burden
- ✓ promote existing EU standards (UCITS/AIFM) internationally

Supervision

- ✓ integrate competitiveness as a specific mission for European Supervisory Authorities (ESAs)
- ✓ achieve supervisory convergence for efficient local and cross-border activities with a two-level approach : on the "entities" and on the "products" levels
- ✓ enhance the application of EU law as a single rulebook, avoiding gold-plating

I Where do we stand? – barriers to tackle

From a regulatory perspective in the European financial sector, the EU institutions have not prioritized competitiveness challenges.

Discrepancies are widening, notably compared to other national regulatory authorities, that have explicitly incorporated competitiveness into their mandates. For instance, recent legislation in the UK mandates the Financial Conduct Authority (FCA) to support the long-term growth and international competitiveness of the UK economy[1]. On a more practical aspect, the FCA will have to annually report on this objective and be required to appoint a "cost benefits analysis panel".

The fast-paced nature of European regulation and the legalistic approach of entities like ESMA are impeding the competitiveness of European actors, creating legal uncertainty. Recently, European actors experimented a lack of synchronisation between different

[1] Financial Services and Markets Act of 2023 ("FSM Act")

regulations, within the entry into force of SFDR before the adoption of CSRD, not to mention the ongoing review of SFDR. The increasing volume of regulation is also contrary to the simplification of reduction of administrative and regulatory burden.

Additionally, despite harmonisation of a global regulatory framework (such as UCITSD and AIFMD), European actors face divergences in interpretation at national level, such as gold-plating, which induce fragmentation, non-optimum cross-border activities, harming the implementation of a single rulebook.

Without a rebalancing of the equilibrium between resilience and competitiveness, long-term global competitiveness of Europe, not only of its financial sector, may be constrained.

II Our proposal for a smarter regulation: competitiveness and supervisory convergence

1. Better regulation: strengthening competitiveness of European capital markets

To achieve the SIU, it is key for Europe to integrate competitiveness at different levels.

a. Competitiveness check

Efficient competitiveness checks should be implemented, primarily benefiting European actors. This check should be closely tied to the SIU and the strategic autonomy of our industries, enhancing international competitiveness.

b. Competitiveness as specific mission for regulators

Integrate competitiveness as a specific mission for European Supervisory Authorities (ESAs), following examples from jurisdictions like Japan or Singapore. Establish systematic industry workshops and impact assessments led by experts' panels, before new regulations, ensuring both the essential link of the rule making to the market practices (and that lacks today) and a more predictable legal environment. Results should be publicly available in annual reports issued by such authorities.

This specific mission would foster a more predictable legal environment for industry and ensure the link between the rule making and the market practices.

c. Promotion of existing EU standards internationally recognised (UCITS/AIFM)

Regulatory frameworks such as UCITS and AIFM are now internationally recognized as a state-of-the-art standard. It is also part of the missions of the ESAs to contribute to preserving and promoting the reputation of the EU.

2. Enhancing the efficiency of supervision

a. Simplification and reduction of administrative and regulatory burden

Simplification and reduction of administrative and regulatory burden should be a key driver for the coming years, to empower the European Union to reach the ambitious goals of the Savings and Investments Union.

The prospective capacity of the EU policymakers, particularly the European Commission, should be reinforced, to better determine regulatory priorities, and restore the competitiveness of European actors.

Prioritizing a well-thought regulatory framework can be achieved through systematic impact assessments and evidence-based approaches.

Advocate for a **moderate use of review clauses**, to avoid constant reopening of the regulation.

Ensure legal certainty by implementing **proper sequencing between regulatory levels**.

Respect the role of each regulatory level, inserting principles in level 1 legislation while detailing technical rules in delegated acts (Level 2) or supervisory guidance (Level 3).

Demand **realistic timelines** for the implementation and entry into force of new pieces of regulation, notably compared to the much longer time given by the SEC to implement rules.

b. Enhancing supervisory convergence

Achieving supervisory convergence in the EU requires a **holistic approach**, looking simultaneously at the "entities'" level and the "products'" level.

<u>Supervisory convergence on the "entities'" level</u>

Prerequisite: the recognition of the notion of group at the European level in case of large cross border asset managers, to reduce the reporting burden and organizational issues with respect to intra-group and intra-EU delegation arrangements but also to contribute to the emergence of global European actors.

Such recognition would ensure that large asset management groups in the EU could benefit from a greater supervisory convergence.

Supervisory convergence could take the form of a "**lead supervisor**" of a national competent authority ("NCA"), for the following reasons:

- A "lead supervisor" NCA would allow to maintain two fundamental characteristics of an efficient supervision: proximity and reactivity.
- A "lead supervisor" NCA could be designated on an objective basis, to avoid any "forum shopping", for instance using the criterion of the NCA of the parent company of the relevant asset management group or the criterion of the number of employees in a Member State. Indeed, other criteria, such as the assets under management, could evolve over time and hinder legal certainty, which is crucial for the competitiveness of our industry.

Such an approach should apply both to EU and non-EU groups operating in the EU.

Other proposals, such as a single supervision by ESMA, based on an opt-in mechanism, or as a collegial supervision mechanism gathering relevant NCAs and ESMA, **do not seem suitable**, at least in the short/ medium term perspective, for the following reasons:

- Envisaging single supervision by ESMA should be subject to a preliminary full review of ESMA mandate that would allow to address current obstacles (both on governance and functioning aspects) to such a move. This should aim at developing and reinforcing ESMA competencies while considering as well appropriate articulation with NCA. Such a set-up would require an in-depth gap analysis to assess its effectiveness for the industry.
- Dialogue between NCAs and between NCAs and ESMA should be encouraged and facilitated to foster convergence and pragmatism in supervision.

Supervisory convergence on the "products'" level

With respect to the opportunity to have a single supervision on certain products whose characteristics are harmonized at the European level, we believe that at this stage at least and for the reasons mentioned above, national supervision should be maintained as a default option. Single supervision may make sense in the case of investment funds with a European label (stemming from a regulation), as ELTIF vehicles. Nevertheless, we would encourage more convergence and more control, especially to avoid gold-plating by certain NCAs, to foster legal certainty and competitiveness at the European level.

c. Enhancing the application of EU law

Reinforce the role of ESAs, especially ESMA in asset management, for the application of the European regulatory framework, preventing discrepancies between local interpretations and 'gold-plating'. Example: information gathered within the framework of CSA ESMA.

Greater supervisory convergence should also ensure effective application, both at European and at national level, of a **single rulebook**.

Data sharing between the relevant supervisory authorities should be fostered to leverage on the existing data submitted by asset managers.

Provide regulators with instruments such as "no-action letters" for flexibility.

Reinforce ESMA's role with **increased transparency** in decision-making processes and adherence to a solid legal framework.

Better consideration of different stakeholders' views on public consultations.