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“Rethinking Asset Management: From Resilience to Investor Protection and Economic Growth”

Laura Reginato of Cattaneo Zanetto & Co., a leading lobbying firm specialized in government relations, regulatory and public affairs, based in Rome, Milan and Brussels, and closely cooperating with FECIF, provided a thorough analysis on the above ECMI-CEPS Task Force Report.

Analysis

The European Capital Markets Institute (ECMI) and the Centre for European Policy Studies (CEPS) formed the Task Force ‘Rethinking Asset Management’ in late 2010.

This research paper closely examines the contribution of the asset management industry to the economy, the detail of its regulation in Europe, and seeks to demystify the nature of the asset management business for investors and politicians.

The report draws the link between asset management and several key issues: financial stability, product integrity, investor protection and the real economy. It evaluates the many legislative proposals that are currently under consideration - including implementation of the alternative investment fund managers Directive, the review of the markets in financial instruments Directive and packaged retail investment products - as well as the discussions on product integrity in UCITS and ‘shadow banking’.

Key recommendations and conclusions:

- The AIFMD addresses many of the issues of financial stability in fund management but more work is needed to better understand maturity and liquidity transformation, sponsor support, imperfect risk transfers, and securities lending in fund management (*within the ongoing debate about ‘shadow banking’*).
- The UCITS rules on derivatives and indices should be reviewed to strengthen product integrity, closing the gaps that make regulatory arbitrage possible and improving consistency. The current rules have the effect of encouraging the use derivatives and indices, instead of direct investment.
- Actions being taken at national level to protect retail investors at the point of sale risk reversing the single market. Action at EU level should be more comprehensive, cutting across product categories and distribution channels, ideally in a single dedicated legislative instrument.
- Resolving the distribution question is essential to foster competition, reap scale economies and lower fees in retail markets. Policy-makers should step up their efforts to

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find a satisfactory solution in this respect. Any new rules should be effectively implemented and closely supervised in practice.

- Distributors should be completely transparent in describing their services to investors. Investors should be informed whether investment advice is based on a broad or more restricted analysis of the market. They should also be informed about the cost of advice, whether in the form of inducements or up-front charges. Disclosure should be meaningful and where appropriate, standardised.

- Financial stability and product integrity concerns must be distinguished from the protection of retail investors at the point of sale. Complexity in the product structuring should be addressed via product rules (UCITS) while complexity in the risk-reward profile should be addressed via distribution rules (MiFID).

- Investors should be urged to request investment advice when purchasing an investment product with a complex risk-reward profile, such as some structured funds. Execution-only services should be reserved for investment products whose risk-reward profile is easily understood by the average retail investor.

- Both market and non-market risks (*operational, counterparty and liquidity risks*) are relevant in understanding the risk profile of a given product. In a context where market risks are often transformed and repackaged, resulting in novel operational, counterparty or liquidity risks, it is essential to better communicate these non-market risks to investors.

- Retail investors would benefit from having access to relatively illiquid asset classes to channel part of their long-term savings, including part of their retirement savings. A harmonised regulatory framework for long-term retail funds (LTRFs) should therefore be a policy priority.

- Europe needs a harmonised framework for retail funds who present themselves as responsible, including respon-

sible UCITS funds. This framework should be robust and ensure the standing of responsible funds with regard to the ESG goals they purport to seek.

- Sufficient flexibility should be extended to the proposed European Venture Capital Funds (EVCFs) to foster the development of venture capital in Europe.

Additional Information

The Task Force 'Rethinking Asset Management' was set up by the CEPS and ECMI in late 2010 to investigate four issues, in view of their relevance for the European economy, the single market and investors: (a) the future of the asset management industry after the financial crisis and the adoption of the alternative investment fund managers' directive; (b) product innovation in UCITS and the way forward to complete the single market and strengthen product integrity; (c) the distribution of investment funds and other products to strengthen the choice and protection of (*retail*) investors; (d) the contribution of the asset management industry to the economy and how to unleash its untapped potential.

For this purpose, CEPS and ECMI brought together a wide range of stakeholders, including asset managers, custodian banks, academics, experts and policy-makers, under the chairmanship of Jean-Baptiste de Franssu, Chairman of INCIPIT and former President of EFAMA, and with the support of the CFA Institute.

ECMI and CEPS will follow-up this work with a new Task Force on 'Long-term Savings and Pension Provision' in the second half of 2012.

Sources

To download the report and for more information: <http://www.eurocapitalmarkets.org/rethinking.brussels> and <http://www.ceps.be/>