EFAMA

European Fund and Asset Management Association

Initial reactions on the new Capital Markets Union action plan

Keynote Speech by

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6th Cyprus International Funds Summit - 16 November 2020

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Good morning ladies and gentlemen, colleagues,

It gives me great pleasure to take part in this 6th edition of the international funds summit.

For those who do not know EFAMA, we are the European Fund and Asset Management Association. Our membership consists of 28 national associations, including of course the Cyprus Investment Funds Association, as well as 60 corporate members, among which the largest asset managers operating in Europe.

As the voice of the European investment management industry, we represent the interest of our members vis a vis the European policymakers as well as international standard setters. We are based in Brussels and engage with the European institutions on a wide range of topics, including UCITS, AIFMD, PRIIPs, liquidity management, cost & performance, ETF, MMF, ELTIF, Sustainable finance, macro prudential supervision, to name just a few.

Last year I spoke at this very same event and shared our views on the progress made towards Capital Markets Union ('CMU' in short), the flagship project of the Commission to promote market-based finance in the EU.

Since then the European Commission published -two months ago- its new CMU Action Plan and now is therefore a good time to share with you some reflections on this new EU roadmap.

EFAMA is very supportive of the CMU initiative and has been since its launch in 2015.

Decisive actions are clearly needed to make CMU a reality and it is very important that the entire financial services industry gives it its full support.

Looking at the new Action Plan, we support the focused approach taken by the Commission and the various actions being considered. The emphasis on supporting the development of local capital markets is particularly welcome as a well-developed financial ecosystem is still missing in many Member States.

For the purpose of this short intervention, I will focus on a few themes. I will not be able to elaborate much but hopefully this will give you a good flavour of where we stand concerning some of those issues.

First **Public equity**

There is way too much debt in the system and not enough equity. This is particularly worrisome as it makes our economy more vulnerable to a downturn and does not allow the proper financing of innovative companies.

We need vibrant European public equity markets. We welcome the European Commission's efforts in that space. This is particularly important for UCITS given the assets that are eligible for UCITS investments.

Then comes **Retirement savings**

There is an Increasing retirement savings gap in most European countries. This is a real pension time bomb. And could give rise to potential unrest. This is really a huge social challenge, a challenge which is probably as pressing as the need to transition towards a far more sustainable development model.

Clearly not enough is being done in most MS as national politicians lack the political courage to undertake the necessary structural reforms.

The EC intends to facilitate the monitoring of pension adequacy in Member States through the development of pension dashboards. It will develop best practices for the set-up of national tracking systems for individual Europeans. It will also launch a study to analyse auto-enrolment practices and may analyse other practices to stimulate participation in occupational pension schemes, with a view to developing best practices for such systems across Member States.

While this is all welcome, this lacks ambition and teeth. At the very least we would have expected the results of the monitoring to feed into the European Semester process, as will be done for the efficiency of national insolvency regimes.

The PEPP was part of the previous CMU AP – our members are telling us that they are unlikely to enter the PEPP market given the restrictions applying to the Basic PEPP, especially as it relates to the scope of the 1% fee cap. This is a missed opportunity, and it is to be expected that the PEPP market will be dominated by capital-guaranteed products which is not necessarily in the best interest of investors in the long run.

Tax is next

Withhoding tax relief procedures remain very complex and constitute an obstacle to cross-border investments. So, we welcome the action envisaged by the EC to propose a common, standardised, EU-wide system for withholding tax relief at source

Also, companies still have an incentive to issue bonds more than shares. As long as this is the case, progress towards an equitization of our economy will remain slow. It seems we have been discussing this issue for more than 20 years now…

We are also concerned that new taxes will eventually be raised by MS and that those affect investments, in direct contradiction with the CMU objectives.

What we need is not more taxes, but more tax incentives, especially for long-term investment products.

Fund Regulation

We welcome the focus on the European Long-Term Investment Funds, or ELTIF, and believe there is potential to make ELTIF a success provided the right incentives are in place.

On a separate note, and given the importance of UCITS and AIF in channeling savings to long-term investments, we hope that the debate around delegation will not be politicised and that delegation as we know it will remain possible. This is key to the continued success of UCITS and AIFs.

Single rulebook and supervisory convergence

We welcome the focus on enhancing the single rulebook and promoting further supervisory convergence. This will facilitate cross-border activities, provide scale and allow the European financial services industry to become more competitive.

That said, we are somewhat surprised that the debate on the supervisory architecture, and especially on the direct supervisory powers of ESMA, has resurfaced in the context of the AIMFD review consultation paper. We would have expected this debate to take place once the Regulation on the European System of Financial Supervision is up for review which is at the end of 2021.

Institutional investors

We welcome the EC's aim to incentivize long term investments by insurance companies. We hope the Commission will live up to the market expectations once they receive the advice of EIOPA in due course as past experience shows that the Commission tends -more often than not- to follow the conservative prudential approaches of the ESAs.

The priority should really be to focus on the institutional investors – this is likely to be much more impactful in the short term. Insurance companies and pension funds hold the key to the further development of equity markets in Europe.

Financial and sustainability-related company information

The idea of the Commission to establish a European Single Access Point that provides investors with seamless access to financial and sustainability-related company information is one we fully support.

We would recommend the EC to prioritise this action, especially given the importance of allowing our industry to discharge their obligations under the Commission's sustainable finance action plan.

Secondary markets

Liquidity needs to be improved, especially in the corporate bond market and CP market. The market making capacity of banks has reduced substantially following the adoption of new prudential requirements. We welcome the Commission's intention to promote market-making by banks and other financial firms. We need to distinguish fund liquidity from market liquidity. The events of March this year have demonstrated that the liquidity of funds is properly managed, and the existing regulatory framework is robust. What needs and must be improved however is market liquidity.

Securitisation

Despite all our efforts, the financing of our economy will remain mainly bank-based for quite some time. Reviving the securitization market is therefore rightly a priority. For the buy-side it represents an interesting asset class, gives access to new exposures and offers interesting diversification benefits.

Retail participation in capital markets

We welcome the envisaged actions in the field of financial education. The opportunity cost of staying invested in bank deposits is huge. We note that the EP and MS share the view that financial education is key. So, it seems that there is an increasing level of awareness which is good.

This is not enough of course. And there is also a need to improve disclosures to investors. We note the Commission will come up with a retail investor strategy in 1H22. We welcome that, as there are a number of inconsistencies across various pieces of legislation that need to be removed.

That said, we cannot wait 18 more months to fix the PRIPPs flaws. Especially given that the UCITS exemption expires in 13 months now. We simply cannot afford to let the PRIIPS KID damage the well-functioning UCITS KIID. The entire European fund management industry is begging the EC to do something about it and give a clear signal that this will be taken care of. This has been a huge distraction and is not reflecting properly on the EU institutions to be honest.

On inducements, we take note that the EC will carry out an assessment of the applicable rules. At this stage we would just flag that it is important to ensure that retail investors still have access to advice, to avoid a so-called advice gap. A complete ban on inducements is not the holy grail that some think it is, also cost-wise for the investors. That said we all agree that advice must be fair and potential conflicts of interest duly managed.

Better Regulation

We welcome the reaffirmation of the one-in, one-out principle whereby each legislative proposal creating new burdens should relieve people and business of an equivalent existing burden at EU level in the same policy area.

The ever-increasing regulatory costs are a source of major concern, especially for the smaller market participants, of which there are many in our industry.

KPI

We welcome the envisaged use of targeted indicators to monitor how EU capital markets are evolving. EFAMA has recently developed a KPI to track progress towards further retail participation in capital markets which we have shared with the European Commission.

Employee share ownership plans

The European Parliament has recently called on the EC to explore initiatives to incentivize such plans. We very much subscribe to that and feel it should have been part of the new CMU Action Plan.

Finally, considering the Action Plan will lead to a number of new legislative initiatives by the European Commission, of which some will be complemented by technical standards, we urge the EC and the co-legislators to consider using **dynamic implementation dates** to avoid the industry having too little time to implement the new rules as has been to often the case in the past.

Ladies and gentlemen, colleagues,

Properly executed, the new CMU Acton Plan has the potential to boost market-based finance in Europe, which is key to finance innovation as well as the transition towards a more sustainable and digital economy. It should also naturally lead to a more resilient financial system and many more investment opportunities, to everyone’s benefit, including the investment management industry.

However well-intended the Commission may be, as many of you would know, the Commission only makes proposals. Those eventually adopting the EU legislation are the co-legislators, namely the Council of the MS and the European Parliament.

This is why we need a strong industry voice in Brussels and in the Member States.

EFAMA is that voice in Brussels and I would like to conclude by thanking all our members, many of whom are in this room, for their continuous support and their active contribution to our work.

And by thanking the Cyprus Investment Funds Association for inviting me today to address such a distinguished audience of industry professionals.

Thank you for your attention.