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Asset management regulation challenged by climate change and digital developments

Asset management in the EU is embedded in robust regulatory frameworks, including the UCITS Directive and AIFMD, to the benefit of the market operators and the investors. The success of the UCITS label is recognized both in the EU and abroad. Broadly spoken, AIFMD has worked well. Therefore, at this moment, there does not seem to be a need to launch a thorough AIFMD review, even if in some areas are welcome (e.g. in the area of segregation duties in case of delegation of the safekeeping of assets by the depositary). It is in the interest of the EU to have a stable framework for funds, while at the same time be responsive to new challenges, and this against the background of a prolonged low rate environment and of the corona crisis.

Firstly, asset management has a role to play in the European ambitions to achieve sustainable finance and, ultimately, the ambitious EU climate goals. In this respect, the EU should take a leading role, but should engage as well at a global level to contribute to the adoption of standards and practices that are internationally adoptable. Mobilizing sufficient private investment will not be possible without efficient capital markets and an important role for asset management. In this respect, enhanced transparency of sustainable features of financial products allows investors to identify viable sustainable investments. However, this evolution can give rise to investor protection concerns and can lead to greenwashing, especially given the risk of confusion about existing terminologies. Adequate disclosure and a harmonized taxonomy should address the risk that investors end up buying products, which are marketed as sustainable when in reality they are not.

Asset management also has to keep pace with digital developments in finance. Among the relevant developments are online digital services, robo advice, artificial intelligence and machine learning, each of which entail risks, benefits and opportunities. Regulators' strategy in relation to technological developments can be summed up by three actions: facilitate, monitor and supervise. Innovation hubs are possible channels to facilitate the contacts at an early stage between Fintech players and supervisory authorities and allow for better monitoring of the innovations. Supervision should ensure that innovation happens smoothly, so not to endanger consumer protection, fair and efficient markets or financial stability.

The increasing volume of the assets under management has finally led to a

greater focus on asset management from a financial stability perspective. The FSB has issued recommendations intended to address financial stability risks from structural vulnerabilities associated with asset management activities that could materialize in the future. IOSCO has operationalized these recommendations concerning possible liquidity mismatches and fund leverage. Both aspects merit close attention at EU level. Although existing tools in the EU already address many of the macroprudential concerns, it is recommended that the relevant authorities review their existing regimes and consider making adjustments as appropriate to ensure potential financial stability risks are addressed in a forward-looking and internationally consistent manner. ●