Marco Zwick

Director, Commission de Surveillance du Secteur Financier (CSSF)

Contribution of Asset Management to the post-Covid-19 economic recovery

European households own significant bank deposits, but often show limited interest in capital markets. The contribution of asset management to the post-Covid economic recovery requires a large-scale distribution of European fund products to investors, and more specifically retail investors. The following main considerations are likely to increase the attractiveness of these products:

- Focus on the adequacy of the cost-performance ratio of UCITS distributed to retail investors to manage the significant impact of costs on the final value of investments.
- Structuring the post Covid-19 world around sustainability with private actors being key to finance the green transition.
- Increasing the outreach of investment fund products to a larger investor base by way of measures already put in place under the EU Regulation on cross-border distribution of funds, like uniform rules on the publication of national provisions concerning marketing requirements and on marketing communications addressed to investors, and via setting up a framework on the marketing of funds through digital media and increasing the possible investment horizon of UCITS funds while still complying with the retail investor focus.

With the European asset management sector being expected to grow further as a result of both the European initiatives related to the Capital Markets Union and a possible contribution to the post-Covid economic recovery, a continued close monitoring of related financial stability aspects remains important. The 2017 FSB Recommendations[1], the IOSCO follow-up work[2], the 2017 Recommendation of the ESRB[3] with the related ESMA implementation work (e.g. ESMA Guidelines on Liquidity Stress Testing in UCITS and AIFs) are central policy contributions in that respect and address in particular financial stability risks related to liquidity mismatches in open-ended investment funds as well as leverage within funds.

During the recent COVID-19 crisis, outflows in investment funds and tensions in market liquidity were observed in less liquid market segments, such as high-yield and emerging market fixed income markets. Also, difficulties in the valuation of certain asset classes (e.g. real estate) and strains in some MMF segments became apparent.

In Luxembourg, the large availability of liquidity management tools revealed their particular importance under these exceptional circumstances from both an investor protection and financial stability perspective.

It will now be important to thoroughly analyze these developments and examine how the substantial policy work carried out so far addresses the tensions and whether possible gaps exist.

1. FSB “Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities”, 2017.
2. IOSCO “Recommendations for Liquidity Risk Management for Collective Investment Schemes”, 2018, “Open-ended Fund Liquidity Risk Management – Good Practices and Issues for Consideration”, 2018, and “Recommendations for a Framework Assessing Leverage in Investment Funds”, 2019.
3. “Recommendation of the European Systemic Risk Board of 7 December 2017 on liquidity and leverage risks in investment funds (ESRB/2017/6)”.