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How to upgrade Investment Fund regulation to benefit EU citizens and businesses?

The recent Covid crisis, which is not over yet, requires to reflect further on how to upgrade the EU fund regulation framework in the short term. And in the longer term, the Sustainability critical issue must be properly tackled by the asset management industry.

Data show that market-based finance, mainly developing through the regulated fund industry, has increased its footprint in the economy – in particular since the 2008 crisis – and therefore bears more responsibility vis-à-vis society. Through funds, citizens as savers are increasingly contributing to the financing of companies. As employees, they benefit from that easier financing of their employers. As retirees, they enjoy higher private pensions.

During the Covid crisis, the EU fund industry reacted well. From a systemic perspective, no major failure occurred – showing that the current UCITS and AIFM Directives' framework is appropriate. The only area where few issues happened was related to the lack of Liquidity Management Tools in some Member States. Apart from that lack which should be solved at EU level, we think that Europe should not take the political risk of changing a regulatory framework which has made the proof of its appropriate design, including in highly stressed conditions.

Instead, policymakers should assess how positively the fund industry could contribute to the post-Covid recovery – in the short and longer terms.

In the short term, clearly a re-designing of the ELTIF Regulation would be key. In theory, the ELTIF is an ideal tool to boost the pan-European retail financing of key EU assets which will need to recover post-Covid, such as SMEs (which are a core component of job creations) and real assets (infrastructures and real estate). But up to now, ELTIF failed to deliver due to too many constraints (too high minimum amount to be invested by retail investors, unclear eligibility of real estate assets). Integrating a clearer and consistent Sustainability criterion for eligibility of assets, in particular for real assets, would help converging between that product new design and the EU Green Deal. The first priority should be for the Commission to ensure a harmonized tax treatment, otherwise the regulatory reshaping might be done for nothing.

In the longer term, the EU fund framework must embed Sustainability more widely. AXA IM has been a strong supporter of the 2018 Action Plan and current Green Deal. This is needed from a societal perspective, for the well-being of future generations. It is also needed from a competitiveness and business perspective, if Europe wants to take benefit from its political advance vis-à-vis its main non-European competitors. For instance, regarding ESG labels for funds, we have seen Member States developing various local ones: we are now calling for a European one, both to benefit from the Single Market and develop an EU brand externally.

However, policymakers must remain realistic in the practical contents to be implemented. As an example, the forthcoming implementation of the Sustainability Risk assessment within management companies is highly problematic: while the ECB made clear that for banks the environment and climate risk should be assessed "at least qualitatively", and therefore not systematically quantitatively, such a clarification from the Commission for UCITS and AIF management companies is still lacking – and crucially needed. ●