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Recovery from COVID-19 turmoil has to be EU's top priority in financial services

EU's short-term top priority in financial services needs to be supporting the economy to sustain and recover from the coronavirus crisis. Governments, central banks and other authorities need to do whatever it takes to overcome the economic impact of the crisis. New regulatory initiatives/ requirements should be delayed to help the financial industry to recover its operations and support its customers in full.

Looking beyond the current crisis, moving towards a carbon-neutral economy is a fundamental challenge facing the EU economy the next decades. The devastating economic impact of COVID-19 pandemic will add to the challenge. Both public and private capital will be needed to achieve the transition and asset management can be a key channel to convey private investments in a sustainable way. There is growing client demand for this and also lot of regulatory action.

What asset managers need in support of this development is clear standards and harmonization that will support the growth and mainstreaming of sustainable finance. Avoiding labels and frameworks becoming too niche and hindering product development is key. Regulation needs to be meaningful, requirements clear and non-duplicative and implementation schedules realistic. Key is also to have clearer ESG data standards so asset managers can assess the investee companies properly and fulfil all the new requirements.

EU asset management regulation is very mature and successful in global comparison, especially UCITS has become a global gold standard which has to be preserved. No major overhaul is needed. The planned reviews of the UCITS and AIFMD should be evidence-based, carefully targeted and aimed only at addressing material issues that cannot otherwise be addressed through supervisory convergence.

Lot of focus has in recent years been devoted by the stability regulators on liquidity of investment funds. The COVID-19 market turmoil is now stress testing the current rules in real life. EU regulation already provides a proper toolkit for asset managers to manage the liquidity of their funds, but these tools are not evenly allowed by the national regulators. A big step forward would be ensuring that these liquidity tools are available in all EU jurisdictions.

Many EU regulatory measures have in recent years been adopted impacting indirectly asset managers, most prominently MiFID II which is having key impact on distribution models. With the review of MiFID II now commencing EU has the opportunity to

correct the problems that have arisen for the industry to be able to serve its clients properly. There are certainly pressures to amend the client classification framework to create a category for semi-professional investors and to simplify the costs and charges disclosures.

EU action is needed to establish a proper framework for long-term investment for retail investors, allowing them to commit a greater part of their savings into less-liquid investments. It seems we will be in the low yield environment for long so Europe needs new kinds of products to give retail investors adequate returns. ELTIF was a laudable idea but has not been taken up by the market. We need to analyse carefully what went wrong and how to create a workable framework on less-liquid assets for retail investors to ensure they have all the means they need to achieve a proper asset allocation for their savings.

The European economy faces many short-term and long-term challenges. By working in constructive dialogue policymakers and the industry can ensure that asset management continues to help economies and citizens to overcome the challenges they face in current crisis and in the future. ●