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The role of the EU Asset Management regulation in the post-Covid recovery

As the COVID19 pandemic continues to rattle the economies and financial markets across the globe, the year 2020 has proved to demonstrate the remarkable resilience of the EU investment funds sector. Looking ahead, the relative calm of the markets should not be a reason for complacency but be used as an opportunity in maximizing the value for European savers, supporting our communities, and ensuring green, smart and sustainable growth of the European economy in line with the CMU objectives.

Resilience of the EU asset management framework

While the industry has witnessed some funds redemption suspensions, predominantly in the commercial real estate sector and mainly caused by valuation-related uncertainties, the EU funds sector has functioned relatively well. Notably, the liquidity management tools functioned as they should, the investor protection rules functioned properly and the money market funds (MMFs) sector has not witnessed serious redemption suspensions, while the ESAs and the national regulators were constantly monitoring the markets to ensure their orderly functioning and prevent the markets against systemic risks.

Key challenges for the EU fund sector in the years ahead

There are always clouds on the horizon ranging from geo-political tensions and trade wars, Brexit, and the climate crisis. The EU fund industry continues to face challenges in terms of integration and competitiveness, including fragmentation, transparency and fees. The bulk of the cross-border supply of the EU funds are directed to Member States with large markets to the detriment of investors in smaller Member States and poorer choice for investors, competition, level of fees and net returns.

However, many of these perceived challenges could be turned into opportunities: by attracting a rising numbers of investors keen to place their savings in green or more sustainable investment options, improving the framework for investments in long-term growth and promoting sustainability and responsible business practices, by simplifying distribution, product and costs structures. By seizing these opportunities, the industry can reshape its business models and strategies and become more resilient.

Initiatives aimed at improving the competitiveness of the EU fund sector

As a constant advocate of the CMU and a strong Single Market, the Commission (EC) is focused on strengthening the CMU and promote a green sustainable post-COVID19 recovery by continuously improving the functioning of the EU investment funds market. The role of regulation is to support the implementation of these policies. The EC continues to execute on the initiatives underpinning an efficient functioning of the asset management sector, among others:

- The Commission's work on the review of the AIFMD is well underway and is seeking to identify areas for potential improvements and propose targeted legislative amendments.
- Pan-European personal pension product (PEPP) should very soon offer transparent and long-term savings solutions for consumers; EIOPA is currently about to finalise relevant rules. Once approved, first PEPP products might be launched.
- The Disclosure Regulation will apply as of March 2021. It will have considerable behavioral effects on the markets, in terms of the consideration of negative externalities caused by investments or clear explanations of how claimed sustainability of a given financial product is achieved.
- In line with the legal mandate and the recommendations of the High-Level Forum for the Capital Markets Union, the Commission has started the review of the European regime for long-term investment funds with a view to identifying the areas for possible improvements and proposing legislative amendments towards Q3 2021.
- The EC also intends to open up the EU Eco-label to financial products; a number of preparatory steps necessary for the legislative change have already been taken.

While the Commission is focused on the smooth operation of the EU funds sector and removing the obstacles to the Single Market, the EU asset management legal framework continues to serve the industry and the investors as a robust, predictable and well-regulated regime. The EC is known for constructively engaging with the regulators, ESAs and the stakeholders and will continuously execute on its policies in helping the sector to unlock unrealized opportunities and speed up the post-Covid-19 recovery. ●