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EFAMA Policy Recommendations for the next European Commission

(2019-2024)

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EFAMA POLICY RECOMMENDATIONS FOR THE NEXT EUROPEAN COMMISSION

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OUR VISION

Our vision is of a Europe where citizens have access to investment opportunities and products which offer value and help them secure a financial future, particularly in retirement. They are engaged and have access to information and advice which is provided in a language they understand and enables them to make confident choices. It is provided in a way which suits them, including through technology or any other appropriate means. The products and services offered to them are adapted to their needs, in particular on environmental, social and governance issues, and are able to harness beneficial new market developments and a diversity of investment opportunities from around the world. This vision relies on a dynamic regulatory environment which is aligned with the needs of the customer and allows the European financial ecosystem to remain competitive on a global scale.

ACHIEVING THAT VISION

As we look to the next five years, we need to focus on how we put the end investors - European savers and pensioners- in the driving seat.

More specifically, we believe that the policy agenda of the next European Commission in the field of asset management should be focusing on achieving the **following key objectives**:

1. Empowering citizens to take good decisions for their financial well-being and making full use of new digital solutions
2. Encouraging citizens to save for their retirement to ensure their long-term welfare and the viability of our social models
3. Unleashing the potential of sustainable finance
4. Strengthening Europe in the global economy, deepening the EU Single Market and continuing to build a Capital Markets Union in order to channel savings into productive activities

In this paper, we present our views on how these objectives could be achieved in practice and offer specific recommendations to the European Commission to help shape its policy priorities, action plans and agenda for the next five years.

We recognise that achieving those objectives will require joint efforts from the industry and EU policymakers and stand ready to support the Commission in delivering on them.

1 Empowering citizens to take good decisions for their financial well-being and making full use of new digital solutions

- Citizens should be empowered to make the right financial decisions to shape a better financial future, by giving them access to clear and reliable information in an affordable manner.

- One way of achieving this objective is to harness the potential of financial technology and innovation. Technology can help give people access to financial information, services and products more cheaply and efficiently than before. New digital solutions and innovative communication tools allow access to advice and information at the touch of a button, putting investors in the driving seat, as well as driving competition in distribution to make it more efficient.

- Investor education is also key to making sound financial decisions and requires both private and public support and promotion.

Our recommendations to the Commission

- **Align communication to investors** across existing EU frameworks (PRIIPS, MiFID, UCITS, IDD…) so that end investors no longer receive diverging information. This will notably require a comprehensive review not only of <u>what</u> is communicated to investors, but also of <u>how</u> it is communicated. Alignment needs to be found between the PRIIPs regime and MiFID II and any switch away from the existing UCITS KIID needs to be as seamless as possible, with the ultimate aim of achieving the initial objective of the PRIIPs Regulation, i.e. to facilitate comparisons between different products, reduce costs for consumers and enhance competition.

- **Ensure that financial regulation is fit for harnessing the potential of new technologies** to facilitate digital access to meaningful financial information and impartial expert advice, through better use of existing digital tools, consumer-testing and behavioral finance (e.g. nudging), while preserving high investor protection standards.

- **Promote investor education initiatives** to enhance people's ability to make savings decisions, understand risk and reward in finance and contribute to the inclusive growth agenda in the EU. Support more research into financial literacy, especially behavioral aspects of financial decision-making.

❷ Encouraging citizens to save for their retirement to ensure their long-term welfare and the viability of our social models

- Saving for the future is key to help the European Union cope with the challenge of population ageing and its impact on public finances. In order to address this challenge, we need a more European approach to encourage complementary retirement savings in occupational as well as personal pensions. This is required to help European citizens build up their sources of income in retirement.

- Provided that the regulatory framework remains sufficiently flexible, the PEPP has the potential to provide European savers with a high quality pension product and to encourage them to save more for their retirement.

Our recommendations to the Commission

- **Adopt a Retirement Savings Action Plan** to encourage EU citizens to save more for their retirement, including through the launch of an 'EU Retirement Savings Week' and the development of guidelines and tools to help EU citizens understand the impact of the ageing population on the level of public pensions by 2030-2040 and work out how much they need to save to secure a comfortable retirement lifestyle. The Action Plan could also encourage the exchange of best practices among Member States when it comes to saving for retirement and foresee the development of KPIs to assess progress made at national level.

- **Develop PEPP Level-2 measures** on risk-mitigation techniques, the PEPP KID and the scope of the fee cap for the PEPP default option, in such a way that the PEPP remains attractive for savers and providers alike.

- **Undertake consumer testing on the PEPP KID** to deliver good outcomes.

❸ Unleashing the potential of sustainable finance

- Asset managers have an important role to play in helping to unleash the potential of sustainable finance and increasingly seek to integrate ESG factors in their investment processes and to monitor and mitigate related risks, where these factors are deemed to have a material impact on performance.

- Asset owners, who remain in charge of ESG investment decisions, are also being called upon to contribute to the sustainability agenda by focusing on how the companies they invest in are governed and whether they are managed in a sustainable manner. Asset managers are increasingly being called on by the owners of the assets they manage to engage with investee companies and make use of their shareholders rights to support the development of sustainable corporate strategies. Good corporate governance and corporate sustainability need to be actively promoted.

Our recommendations to the Commission

⇨ Seek to **strike a balance between the Environmental ('E'), Social ('S') and Governance ('G') pillars** to ensure that a holistic approach is followed, in particular as the 'G' is often a key driver to achieve 'E' and 'S' objectives.

⇨ **Ensure consistency and a clear sequencing in the adoption and implementation of the Sustainable Finance Action Plan** (starting by developing a common language for sustainable investment and sustainability risks) and develop a principles-based taxonomy that is flexible enough to allow for diversity of responsible investment strategies and continuous product innovation.

⇨ Empower investors to take an informed view on ESG through **consistent and appropriate disclosures.**

⇨ Mandate **better quality and standardised reporting of material ESG risks** by companies (e.g. by ensuring consistency of EU guidelines on non-financial information with the Financial Stability Board's Task Force on Climate-related Financial Disclosure).

⇨ **Support asset managers in actively engaging with companies** as part of their fiduciary duties to their clients (e.g. by ensuring a consistent implementation of SRD II across Member States, facilitating voting at shareholders meetings…).

4 Strengthening Europe in the global economy, deepening the EU Single Market and continuing to build a Capital Markets Union in order to channel savings into productive activities

- The competitiveness of the European asset management sector in a global environment needs to be preserved. In an ever more open and competitive global economy, Europe needs to remain at the forefront of innovation and open to flows of knowledge, ideas, capital and investment with the rest of the world to remain competitive.

- A key element of competitiveness for Europe is to foster stability, predictability and proportionality in the regulatory environment.

- EU regulation must remain consistent with internationally agreed regulatory standards. The asset management industry is a global one, and the European regulatory regime needs to be consistent with those in other parts of the world to avoid fragmentation and arbitrage opportunities.

- Smart, consumer-friendly, principles-based regulations must be based on open consultations, consumer testing and involvement of technical experts.

Our recommendations to the Commission to strengthen Europe's competitiveness

⇨ **Apply consistently Better Regulation Principles**, so that it becomes more than a 'tick- the-box exercise'. This means, in particular, allowing sufficient time for newly adopted regulation to bed down and produce effects before initiating new ones, producing thorough impact assessments of legislative proposals, consulting all relevant stakeholders and better taking into account the time needed to develop Level-2 measures when defining the date of entry into force of Level-1 instruments to ensure workable implementation periods for regulated entities.

- ⇨ Ensure that EU investors continue to **benefit from open markets and access to world leading expertise** (e.g. by preserving the well-functioning model of delegation of asset management functions outside of Europe), while **allowing European firms to compete** on an equal footing with non-EU peers.

- ⇨ **Allow the ESAs to issue time-limited 'no action letters'** to avoid situations of practical impossibility for financial actors to apply new regulation (e.g. variation margins or Cat. 3 clearing obligations under EMIR).

- ⇨ **Streamline existing reporting obligations** to remove inconsistent, duplicative or overly complex requirements, building on the conclusions of the public consultation on the fitness check of supervisory reporting (e.g. AIFMD or SFTR reporting requirements).

- ⇨ **Preserve and promote the status of UCITS and AIFMD as gold standards** for fund and asset management regulation worldwide. In this context, the planned reviews of both Directives should be evidence-based, carefully targeted and aimed only at addressing material shortcomings that cannot otherwise be addressed through supervisory convergence or Level 2 regulatory harmonisation.

- ⇨ **Strengthen the EU voice in international standard-setting organisations**, such as FSB and IOSCO.

- ⇨ **Deepen the financial markets regulatory dialogues between the EU and other parts of the world** to promote consistent regulatory approaches (e.g. differences in treatment of MiFID investment research, Variation Margins for FX Swaps, retention rates for securitised products) and avoid unintentional extraterritorial effects of regulation (e.g. Volcker rule, …).

- ⇨ **Recognise the positive role of buy-side market participants** in shaping capital markets and market infrastructures, giving companies access to alternative sources of financing from a broad range of investors and providing end-investors with a means to grow their savings.

- ⇨ **Ensure fair access to, and price for, data provided by market data providers** (data and benchmarks providers, platforms…).

Our recommendations to the Commission to deepen the EU Single Market

- ⇨ Continue addressing with Member States **existing barriers to the free movement of capital such as withholding taxes** through the EU Code of Conduct. Unless withholding taxes can be abolished, UCITS and comparable investment funds should be treaty-entitled and the applicable WHT rate limited to 15%.

- ⇨ **Ensure consistent implementation across all Member States** of the Directive on mandatory automatic exchange of information in the field of taxation (**DAC 6**) to achieve a fairer tax system for the benefit of Europe and its citizens. Failure to ensure such consistency risks resulting in unintended mass reporting.

- ⇨ **Continue working on removing barriers and bottlenecks to efficient and resilient cross-border post-trading** in the EU as identified in the EPTF report, including standardisation of investor identification rules and processes, ownership and protection of assets, finality of transactions and shareholders transparency practices (EPTF barriers 5, 7, 8, 9, 10 & 11).

Our recommendations to the Commission to complete the CMU

- ⇨ **Undertake a second review of the Capital Markets Union Action Plan** in order to identify actions that are necessary to complete the CMU. In that context, a public consultation should be launched to gather views on the achievements of the CMU to date, the difficulties experienced in implementing the Action Plan, and the measures that could give new impetus to the project.

- ⇨ **Acknowledge the distinctive features of asset managers** as compared to other market participants such as banks, and better take these differences into account when considering further regulating the asset management industry. Any prudential requirements should cater for the specificities the asset management industry, taking into account the fact that asset management companies and the funds they manage are already subject to detailed and robust regulatory frameworks, in particular the UCITS and AIFM Directives, and more recently the MMF Regulation.

- ⇨ **Ensure that securities markets regulators are better represented in European (ESRB) and International (FSB) standard-setting bodies**.

- ⇨ Ensure vibrant public equity markets throughout the EU by **facilitating listing on recognised markets**.

- ⇨ Ensure **insurance companies' capital requirements** for equity holdings (under Solvency II) are commensurate with the risks inherent thereto.

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