



XXXI UAIB Conference
"Professional Asset Management"

**The European single market -
the role of asset managers and
the EU regulatory framework**

Plenary session 1 Presentation

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The European Single Market

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□ ***“The Single Market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of goods and services”***

→ **EU Member States + Iceland, Norway, Liechtenstein = European Economic Area (EEA) with free movement in the European Single Market**

- **Key benefits**

- ✓ EEA is world's largest economy – 14 trillion euros GDP
- ✓ A functioning Single Market stimulates competition and trade, improves efficiency, raises quality, and helps cut prices
- ✓ It fuels economic growth by offering significant opportunities for European businesses and greater choice and lower prices for consumers

- **Access to the single market requires acceptance of four freedoms of movement**

- ✓ goods
- ✓ capital
- ✓ services
- ✓ people

- **Current Impact of the single market**

- ✓ 16% higher trade in services compared to a free trade area (with no tariffs but other remaining barriers)
- ✓ 60% higher trade in goods compared to trading partners simply relying on World Trade Organisation (WTO) rules

The Single Market Strategy

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Full potential of the single market is still to be unlocked

- ❑ Restrictions in implementation
Common EU rules and/or recognition of each other's standards are not yet in full speed
- ❑ Restrictions in communication
Single Market rules not fully known by the consumers and citizens
- ❑ Restrictions in operations
Local economic barriers undermining the Single Market rules

EU Strategy for a deeper and fairer Single Market

- ✓ A balanced development of the collaborative economy
- ✓ Help SMEs and Start-ups to grow
- ✓ **Make the market without borders for services a practical reality**
- ✓ Address restrictions in the retail sector
- ✓ Prevent discriminations of consumers and entrepreneurs
- ✓ Modernisation and innovation of the standards
- ✓ Culture of compliance and smart enforcement

The Single Market for financial services & Free Movement of Capital

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Too many economic barriers remain, notably in the area of services → more ambitious implementation of the Services Directive would add 1.8 % of EU GDP

❑ **Financial services sector specific rules**

- Banking Union (CRD/CRR, Recovery and Resolution Directive etc.)
- Securities markets (MiFID/MiFIR, Prospectus, Securitisation, Short Selling, etc.)
- **Investment Funds** (see next slides)
- Post-trade services (EMIR/Derivatives, CCPs recovery and resolution, Securities Financing Transactions etc.)
- Corporate Bonds (different ideas assess to enforce liquidity in bond markets)

❑ **Free Movement of Capital**

Cross-border capital movements include: foreign direct investments (FDI), real estate investments or purchases, securities investments (e.g. in shares, bonds, bills, unit trusts), granting of loans and credit, other operations with financial institutions

For European citizens → the ability to carry out many transactions, such as opening bank accounts, buying shares in non-domestic companies, investing where the best return is, purchasing real estate in another country of the single market

For companies → able to invest in, and own, other European companies & raise money where it is cheapest

Asset managers in the European single market

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- ❑ **The role of investment funds is pivotal in channeling investors' money into the economy**
 - Retail savings held directly or indirectly through asset managers, life assurance companies and pension funds are key to unlocking capital markets.
 - Investment funds are an increasingly important holder of corporate bonds, while they increased their share of ownership of EU stock markets from less than 10% in the 1990s to 21% in 2012.
 - The share of “true” cross-border funds in Europe, i.e. funds sold by fund promoters outside their home market, either elsewhere in Europe or in other parts of the world, was 30% of total European investment fund assets - a considerable increase from 18% recorded at end 2005.

- ❑ **The asset management sector**
 - Robust growth in investment funds assets → by 77% during the last decade
 - 2015 and 2016 absolute record years → Assets managed in Europe reached a high of EUR 22.8 trillion, bringing the size of the industry to 138% of European GDP.
 - The European asset management industry ranks as the second largest market at the global scale managing 31% of all assets.

The EU regulatory framework for asset managers & investment funds

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Two main pillars of the EU legislation

❑ **Undertakings for collective investment in transferable securities (UCITS) Directive**

The main European framework covering collective investment schemes, which account for around 75% of all collective investments by small investors in Europe.

❑ **Alternative investment fund managers Directive (AIFMD)**

Alternative investment funds are all funds not regulated by the UCITS directive. They include hedge funds, private equity funds, real estate funds and a wide range of other types of institutional funds.

The Directive covers managers of alternative investment schemes designed for professional investors.

Additional Regulations

❑ **EuVECAs (European venture capital funds)**

A subcategory of alternative investment schemes that focus on start-ups and early stage companies.

❑ **EuSEFs (European social entrepreneurship funds)**

Alternative investment schemes that focus on social enterprises. These are companies that are set up with the explicit aim to have a positive social impact and address social objectives.

❑ **ELTIFs (European long-term investment funds)**

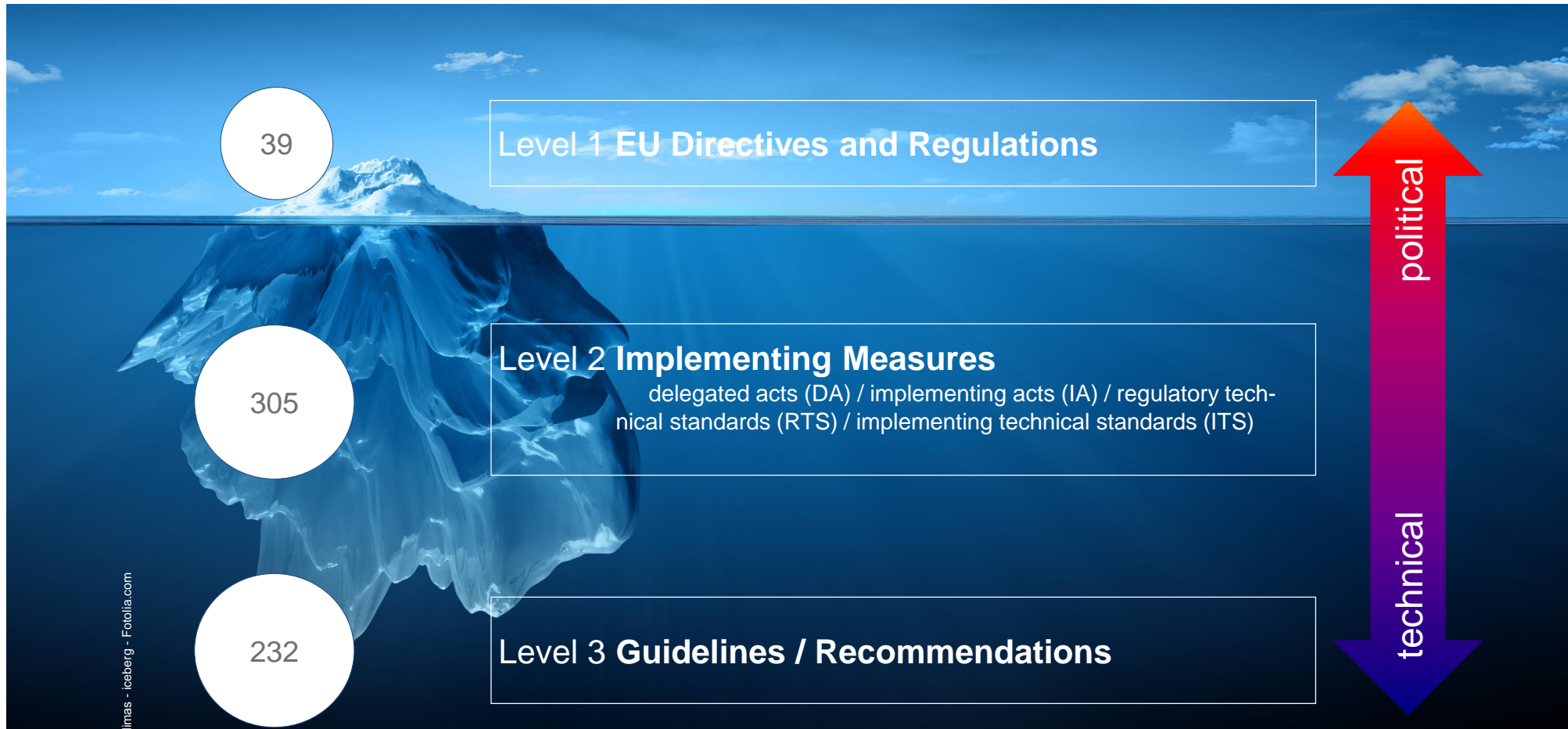
Funds that focus on investing in various types of alternative asset classes such as infrastructure, small and medium sized enterprises and real assets.

❑ **MMFs (Money Market Funds)**

Investment vehicles where households, corporate treasurers or insurance companies can obtain a relatively safe and short-term investment for surplus cash. They are an important source of short-term financing for financial institutions, corporates and governments.

Post-crisis financial reforms

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timas - iceberg - Fotolia.com

EU agenda for the asset management industry

2017 Ongoing files

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Capital Markets Union	Assessing EU regulatory FS framework (follow up Call Evidence)	PRIIPs	Securitisation
MiFID II / MiFIR	Shareholder rights	Funds and market liquidity	Prospectus
Systemic relevance of AM	Prudential treatment of investment firms	Pan-European Personal Pension	Anti-money laundering
CCP recovery and resolution framework	Taxation	EuVECA and EuSEF	Benchmarks
Investor education	Occupational pensions / IORP	European Fund Classification	Industry data

EU agenda for the asset management industry for 2017

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Upcoming workstreams			
Cross-border distribution of investment funds	Assessing the EU retail investment product markets distribution channels (advice, costs & fees)	Action Plan on retail financial services	MMF Regulation Level 2
ELTIF Level	AIFMD review	EMIR review	CRR2 / CRD review
UCITS V review	ESAs review: governance and financing	Review of the EU macroprudential framework	Benchmark Regulation Level 2
Emerging themes			
EU strategy on sustainable finance		Fintech/Digitalisation	

Capital Markets Union Action Plan

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- ❑ **Creating a true Capital Markets Union (CMU)** → a plan to build a true single market for capital in the EU by 2019 → the key EU project in the area of financial services at the EU level for the current legislative mandate
- ❑ The CMU objectives
 - ✓ develop a more diversified financial system complementing bank financing with deep and developed capital markets
 - ✓ unlock the capital around Europe which is currently frozen and put it to work for the economy, giving savers more investment choices and offering businesses a greater choice of funding at lower costs
 - ✓ establish a genuine single capital market in the EU where investors are able to invest their funds without hindrance across borders and businesses can raise the required funds from a diverse range of sources, irrespective of their location
- ❑ In parallel, an expert group on barriers to the free movement of capital is further examining the remaining national barriers to the free movement of capital.

Facilitating cross border distribution of investment funds

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- ❑ **Investment funds are one of the best examples of a generally well-functioning EU single market in the area of financial services.**
 - The share of “true” cross-border funds in Europe, i.e. funds sold by fund promoters outside their home market, either elsewhere in Europe or in other parts of the world, was 30% of total European investment fund assets - a considerable increase from 18% recorded at end 2005.
 - The important rise in the share of cross-border funds over the last decade shows their significant contribution and further potential for the EU single market.
- ❑ Wider cross border distribution means
 - larger and more diversified choice of investment opportunities for both retail and professional investors;
 - more efficient allocation of resources across the EU;
 - bringing down costs and allowing for further innovation.

Dealing with the key barriers

Important room for improvement

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- ❑ **Marketing Restrictions** → A common understanding should be in place on what constitutes marketing and premarketing activities
- ❑ **Lack of transparency and legal certainty** → A single internet portal should be in place and managed by the European Securities Market Authority (ESMA) with a single table on regulatory fees & tax costs and a Guide to national fund marketing regimes
- ❑ **Requiring for local facilities is** outdated and generates additional costs and time burden → Instead accessibility to the appropriate information via on-line services
- ❑ Further **alignment of the notification processes** → Standardize the requirements on written notice submissions to host member states
- ❑ In terms of the **tax treatment** → any national discriminatory withholding tax (WHT) between residents and non-residents should be discouraged & a pan-European tax-reporting format for EU funds should be in place

EFAMA: the representative association for the European Investment management industry

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28 Countries:

24 EU Members, and
Liechtenstein
Norway
Switzerland
Turkey

62 Corporate Members
24 Associate Members

→ **Investment Management:**
EUR 22.8 trillion of which EUR 14.1
trillion through 58,400 investment
funds (*end 2016*)

EFAMA LAND





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Thank you for your attention!

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