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More fundamental changes in sight for the asset management industry

Asset managers face new regulatory and supervisory pressures, which may fundamentally affect their business models. The views are crystallising across different jurisdictions: price competition is weak in many areas, permitting companies to sustain high profits at the expense of a lack of clarity over fees and performance. On top of on-going initiatives such as MiFID2 and PRIIPS implementation, the ESA review is setting tighter rules on the delegation of key functions to third-country entities (and adaptations as a result of Brexit). The European Securities and Markets Authority (ESMA) reiterated that it is not looking to undermine or call into doubt the delegation model, but rather to prevent letter-box entities from operating, ensure a level playing field and achieve supervisory convergence.

In March 2018, the European Commission published its proposal to standardise national marketing requirements and regulatory fees for funds. In April, it published the findings of a study on the distribution systems for retail investment funds that concluded that the on-off and recurring fees for funds in the EU differ massively and that consumers can hardly discern the complete cost picture of funds. Similar work had been done for some time at the Financial Conduct Authority (FCA) in the UK on the competitiveness and transparency of the asset management industry and the need to provide savings channels for households. With about 40% of the EU's assets under management concentrated in the UK, it seems that both are moving in terms of regulation in the same direction. Paradoxically, however, Brexit may lead to higher costs, certainly in the short term, as businesses have to re-think their business models across the entire value chain. Clearing, settlement and custody may end up even more fragmented as a result, in an area that was already not particularly concentrated, certainly compared to the US. Hence, unless ESMA is given substantially higher competences in this domain in the context of the ESA review, diversity may grow, and with it more questions about the industry's performance.

Two recent initiatives stand out. The first of which is the recently proposed prudential regime for investment firms, which creates a separate and much lighter regime for non-bank money managers. In addition, the Commission's proposal for a Regulation on Pan-European Personal Pension product (PEPP) of last year could introduce simpler and cheaper European funds for households, with asset managers advocating the use of life-cycle investment as default option.

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