

Presentation Task Force Report

RETHINKING ASSET MANAGEMENT

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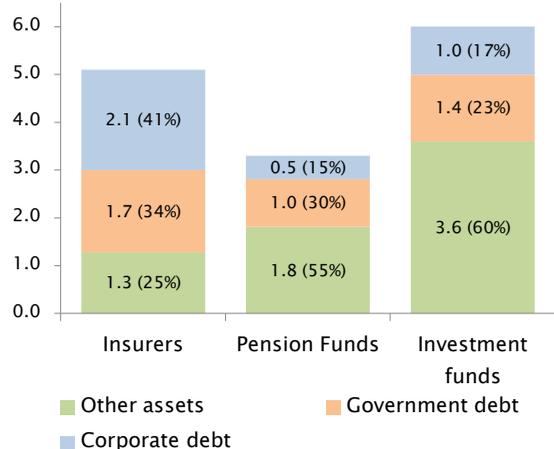


Why this task force?

- ▶ The financial crisis and the AIFMD
- ▶ Product innovation in UCITS
- ▶ Choice and protection of investors
- ▶ Contribution to the real economy



Asset allocation to debt and other securities in Europe by type of intermediary (€ trillion)*

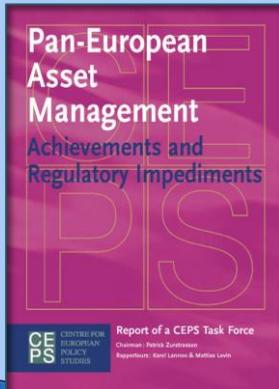


*Source: Fitch (2011)

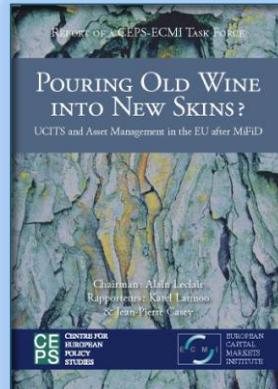
Previous works on AM



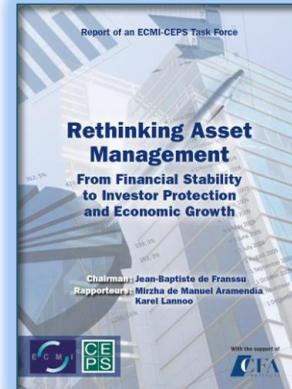
▶ 2003



▶ 2008



▶ 2011



An ambitious report



CHAPTER 2

FINANCIAL STABILITY

- ▶ Financial stability & investment funds (which issues?)
- ▶ The AIFMD
- ▶ MMFs
- ▶ Synthetic ETFs

CHAPTER 3

PRODUCT INTEGRITY

- ▶ Alternative UCITS
- ▶ UCITS ETFs
- ▶ Derivatives & financial indices
- ▶ Ideas for reform

CHAPTER 4

INVESTOR PROTECTION

- ▶ Retail distribution
- ▶ Investment advice
- ▶ Disclosure
- ▶ Investor choice
- ▶ Single market

CHAPTER 5

REAL ECONOMY

- ▶ Traditional managers
- ▶ Sustainable investing
- ▶ Long-term investing
- ▶ Venture capital

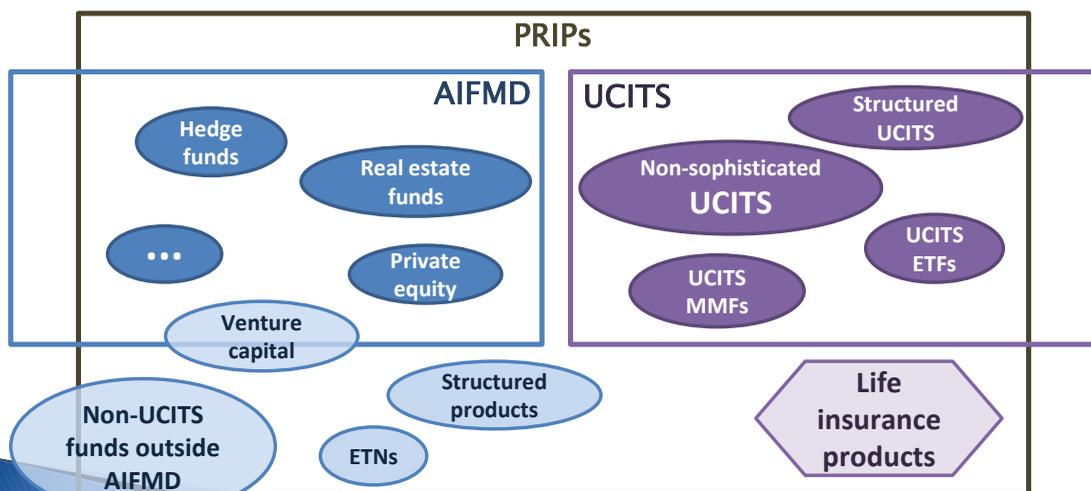


Where are we now?

► Policy shift prompted by financial crisis

2006 - WHITE PAPER	2011 - AIFMD
Freeing up transactions between designated counterparties	→ Comprehensive requirements on non-harmonised managers
“No reasons to interfere in professional transactions”	→ “Inadequacies in due diligence applied by professionals”
No consideration of prudential risks	→ Focus on macro-prudential risks
Introduce retail passport for certain non-UCITS funds	→ Proposal abandoned? (Left to member states under AIFMD)

New regulatory picture



AM & financial stability

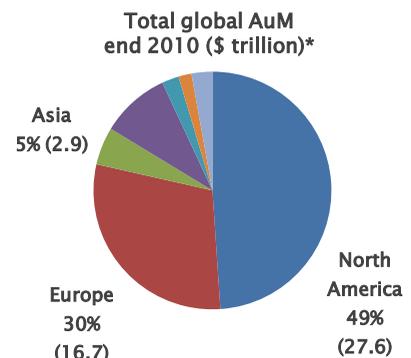


- ▶ **Positive contribution**
 - Development of capital markets and disintermediation
- ▶ **Ongoing discussions on ‘shadow banking’**
 - AIFMD addresses many of the issues
- ▶ **Work needed still to understand:**
 - Maturity and liquidity transformation
 - Imperfect risk transfers (ex: guaranteed funds)
 - Sponsor support (ex: MMFs)
 - Securities lending (ex: ETFs)

UCITS product integrity



- ▶ **What space for UCITS after the AIFMD?**
 - UCITS III expanded eligible assets & practices
 - Alternative UCITS & ETFs
- ▶ **Future review of UCITS**
 - Depositaries (UCITS V)
 - Single rule book (ESMA guidelines?)
 - Rules on derivatives & indices
 - Report considers current rules
 - And advances initial ideas



*Source: BCG, ICI, EFAMA

Derivatives & indices



▶ Targeted reform:

- No major overhaul but closing gaps
- In line with recent ESMA paper (but guidelines sufficient?)
- Clarity and positioning of UCITS brand

▶ Initial ideas:

- Better understand use of derivatives by funds
- Align rules for direct investments and derivatives
- Define market and benchmark for indices
- Better delineate calculation of global exposure
- Hard limits on leverage through derivatives?
- Collateral in derivatives, securities lending and repos

Long-term retail funds



▶ An idea worth exploring

- ▶ Good for savers + an opportunity for the industry
- ▶ Good for the economy (long-term horizon into long-term assets)
- ▶ Broad scope of assets, also non-listed and real assets

▶ Building on UCITS and AIFMD experience

- Strong diversification and issuer concentration limits
- Depositary standards
- Management company and governance

▶ Challenges:

- Operational and valuation risks
- Limits to redemptions

Reform of sale process



- ▶ **Empirical evidence shows dismal picture**
 - Many advisers not understand risks involved in products
 - Most advisers not collect sufficient information from clients
 - Most clients not asked for ability to deal with investment risk
 - Few advisers disclose inducements and conflicts of interest*
- ▶ **Comprehensive and horizontal approach needed**
 - PRIIPS good first step (disclosure and changes to MiFID)
 - Why not a single legislative instrument?
 - National rules reversing single market

*Sources: Synovate, FSA, European Commission, AMF. See Final Report.

Retail investor protection



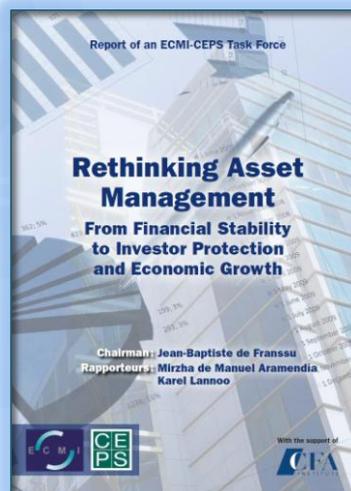
- ▶ **Foster competition, scale economies and lower fees**
- ▶ **Meaningful disclosure about advice**
 - Costs (whether inducements or up-front)
 - Scope of advice (broad or restricted)
- ▶ **Professional standards of advisers**
- ▶ **Complex risk-reward profile**
 - Banned for execution-only or investors urged to find advice?
 - Non-market risks are also relevant
 - First a matter for product rules, where they exist

Untapped potential



- ▶ Foster capital markets
- ▶ Engagement and ESG criteria in investment mandates
 - Intermediary role of asset managers
 - Compatible with fiduciary duty
- ▶ Build a harmonised framework for responsible funds
 - Robust enough to ensure and measure the ESG impact
 - Including responsible UCITS funds
- ▶ Promote venture capital in Europe
 - Enough flexibility for European Venture Capital Funds (EVCFs)
 - But EVCFs not enough

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