

The Future of Asset Management

Key policy challenges

Karel Lannoo

CEPS

www.ceps.eu

Key priority for more integration of asset management markets

- We need a single supervisory mechanism (SSM) for capital markets, a 'twin peaks' model to improve enforcement
 - We have SSM for banks (see how much remains to be done)
 - We need an SSM for capital markets, this is what capital markets union is about
- Asset management markets only integrated at the wholesale end, not at the retail
- The consumer pays the price, too much in zero yielding deposits in Europe, not enough in funds and capital markets
- Lack of trust in investment products, low performance or too high costs as a result of fragmentation
- Experience with enforcement of investor protection provisions in MiFID I does not predict well for MiFID II

EU capital market supervision today

- **National:** Mostly functional supervisors or FSAs in EU, few ‘twin peaks’, but no consistent division
- **EU:** even more complex structure with banking union, actors:
 - ESAs (all three!), ESRB
 - SSM and ECB
 - SRM and SRB
 - EU Commission
- EU initially wanted more unique supervisory tasks for ESAs, but changed its mind (i.e. supervision of benchmarks, CTPs and APAs, CCPs)
- Too much of a ‘spaghetti’ for efficient supervision, no pooling of expertise
- Too much regulatory competition
 - Reduces trust: no EU-wide issuance (i.e. revised prospectus regulation)
 - i.e. diversity in approval procedures for fund prospectuses

Many fund sector post-crisis updates

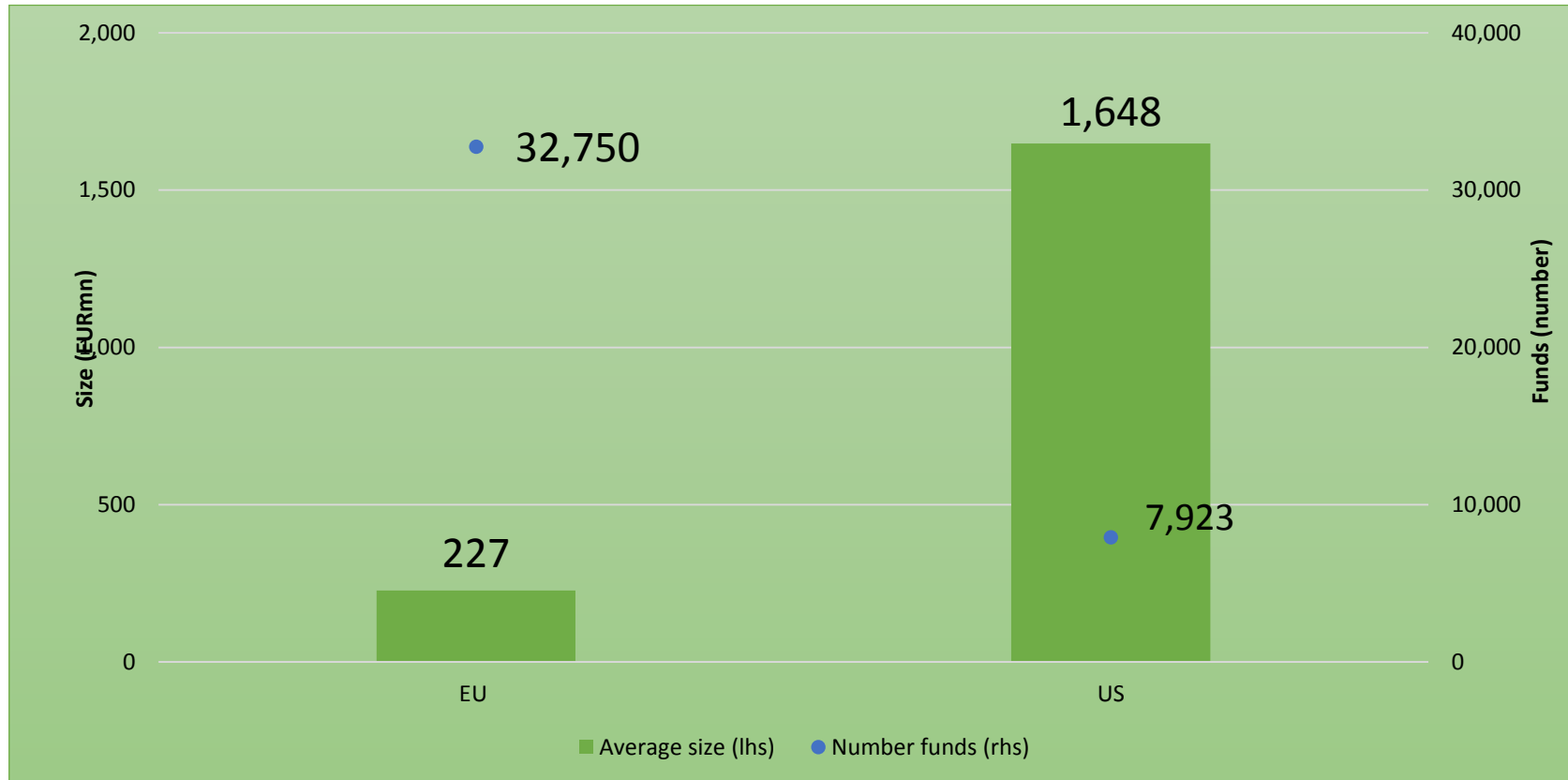
- **Marketing** governed by PRIIPS (2014)
 - became horizontal directive
 - Costs for investment and insurance linked products
 - Allows ESAs to forbid certain products (see Art. 9 ESAs regulation)
 - And to set penalties
- **Sales** by MiFID II (level 2 in cours of implementation)
 - Investment advice should be provided to clients on independent basis, if through banks, only limited fees allowed; separate research account
 - But very difficult to implement
 - And experience with RDR in UK not promising
- **AIFMD** for alternative products and **ELTIF** for illiquid investments: integrated framework for AIFs
- **MMF** compromise, seen as alternative for deposit (capital requirement)
- **Back office**
 - **CSDR**: more competition amongst depositaries
 - **UCITS V**: separation of depositary and manager

EU asset management framework

	Mutual funds (UCITS)	Private banking	AIFs (structured products, SPVs)	Life insurance
Distribution	MIFID	MIFID	AIFMD/ELTIF	IDD
Disclosure	PRIIPS	MIFID	PRIIPS	PRIIPS
Asset allocation	UCITS IV MMF	(CRDIV)		Solvency II
Prudential	UCITS V	(CRDIV)	AIFMD	Solvency II

EU fund market too fragmented

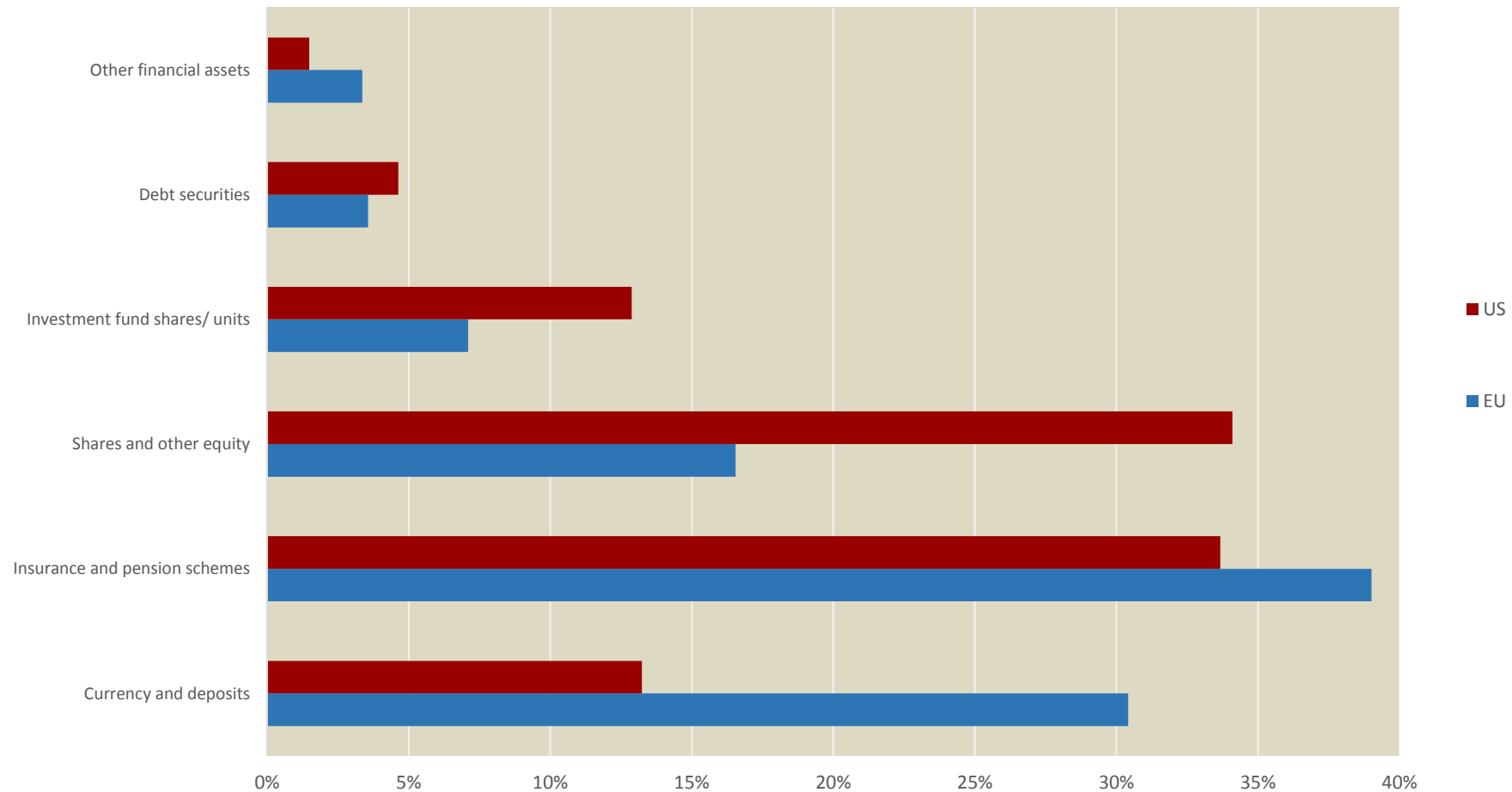
Number of funds and average size EU - US
(2014)



Total expense ratio: 1.8% in EU, 0.8% in US

Too much money in cash/deposits

Composition of the financial portfolios of EU and US households
(%, end 2014)



Key challenges

- **Implementation**

- Cfr MIFID I Col and inducement rules
- MiFID II and separation of independent advice from

- **Enforcement**

- **Long term saving product**

- Authorise funds in function of:
 - Size
 - Asset allocation in view of stable returns
 - Management fee
 - Cross-border portability

- **Standardisation of fee calculation** for funds, incomparable today on EU-wide basis