

KEYNOTE ADDRESS:

***CHALLENGES AND OPPORTUNITIES
POSED TO THE EU ASSET MANAGEMENT
INDUSTRY BY THE NEW REGULATORY
ENVIRONMENT***

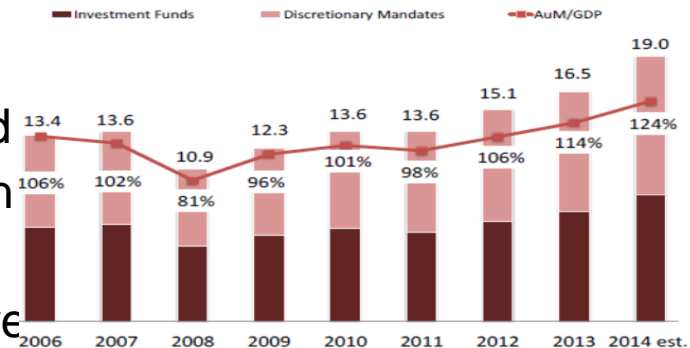
Agathi Pafili
Senior Regulatory Policy Advisor
EFAMA

Current trends and Key Figures for the EU asset management industry

2

- European assets under management in Europe enjoyed a third year of strong growth in 2014.

- Total assets under management increased in 2014 (after a 9% increase in 2013) to reach an estimated EUR 19 trillion at end 2014 (EFAMA 8th Annual Review – Facts and Figures published in April 2015).

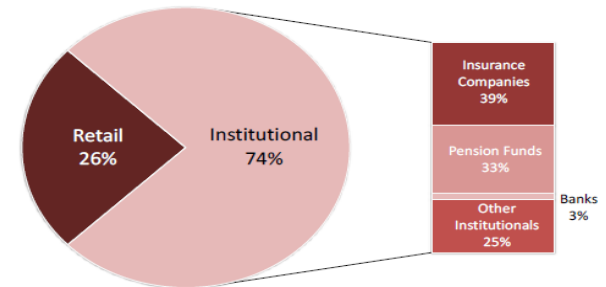


- Discretionary mandate assets are estimated to have reached EUR 9.9 trillion at end 2014. Investment funds accounted for EUR 9.1 trillion by the end of December 2014.
- In concrete, net assets of UCITS increased by 16.3% and reached EUR 7,979 billion and net assets of non-UCITS also enjoyed a rise of 14.3% to stand at EUR 3,362 billion at end 2014..

Current trends and Key Figures for the EU asset management industry

3

□ Institutional investors represent the largest client category, accounting for 76% of total AuM in Europe acting on behalf of millions of households. Still, there is a direct link to an important number of retail investors.



□ Holding of bonds and equity assets remain the clients' preferred asset class, with 43% and 33% of total AuM, respectively, at end 2013.

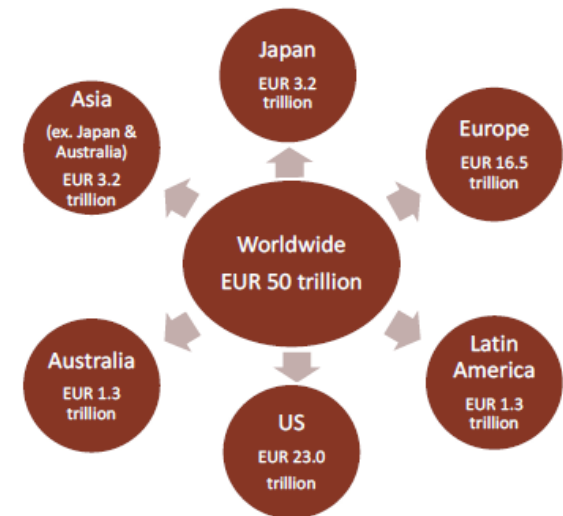
□ More than 3,300 asset management companies in Europe employ 90,000 people directly at end 2013.



Current trends and Key Figures for the EU asset management industry

4

- At end 2014 five countries held EU market shares of above 10% - Luxembourg, Ireland, France, Germany and the UK.
- Worldwide investment fund assets under management also increased to EUR 28.29 trillion at end 2014, representing growth of 18.9% since end 2013.
- United States and Europe held the largest shares in the world markets (with 51.2 and 28.2% respectively) with Australia, Brazil, Canada, Japan, China, Rep. of Korea, South Africa and India following in the ranking.

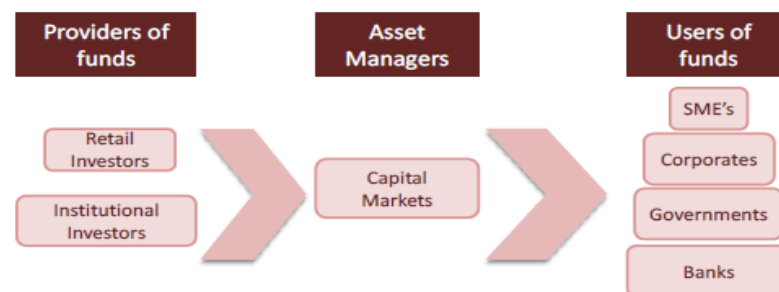


Challenges ahead for the sector

5

- Remarkable growth linked to the stronger performances of financial markets around the world.
- For asset managers in concrete, also linked to the features of their own business model and the increase of those asset owners who decide to outsource the management of their portfolios.

- The ratio of the AuM to the aggregate European GDP reached 124% of GDP at end 2014.



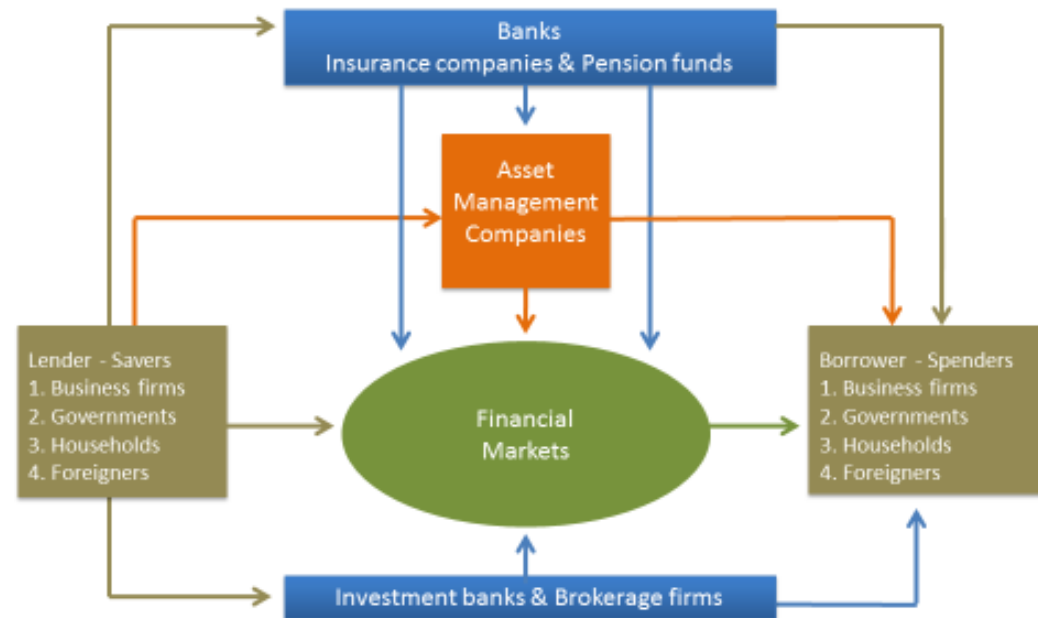
- The asset management industry contributes to channeling savings of households and corporates into helping corporations, banks and governments meet their short-term funding needs and long-term capital requirements.

A standalone industry

6

- Asset managers exhibit a number of distinguished features which sets them apart from other financial services firms and credit institutions:

- ▣ Agency based model
- ▣ Limited balance sheet risk
- ▣ Protection of clients assets
- ▣ Fee based compensation



Current Regulatory developments – Capital Markets Union

7

- In February 2015 the EU Commission published its Green Paper on Building a Capital Markets Union (CMU) along with a consultation document on the review of the Prospectus Directive and on Securitisation.
- The three consultation documents form part of the CMU project – one of the key policy priorities announced by the Commission's President already in July 2014 – a project that aims at:
 - Reducing reliance on bank financing and diversifying the sources of funding of the European economy and supporting a sustainable return to growth and job creations
 - Enhancing the flow of capital from investors to long-term projects
 - Ensuring funds can be channeled across borders by tackling remaining legal or supervisory barriers.
- The policy fields prioritized for early actions to be taken in the next months are:
 1. simple, transparent and good quality securitization;
 2. encouraging the take up of ELTIFs;
 3. review of the prospectuses directive;
 4. developing a European private placement markets;
 5. improve access to finance for SMEs, credit information on SMEs and credit scoring.

Current Regulatory developments – Capital Markets Union

8

- The Green Paper emphasizes the key role of the European asset management industry with regards to measures to diversify the supply of funding and “channeling investors’ money into the economy”.
- The important success of UCITS as an internationally recognised framework, along with the introduction of AIFMD in 2013 for all non-UCITS investment funds are already highlighting this pivotal role of asset managers in Europe.
- EFAMA has lauded plans for a CMU which should be focused on investors needs. In that way CMU can help unlock capital and shift it towards investments in long-term projects and ultimately reduce the costs of investment funds and pension savings for investors.

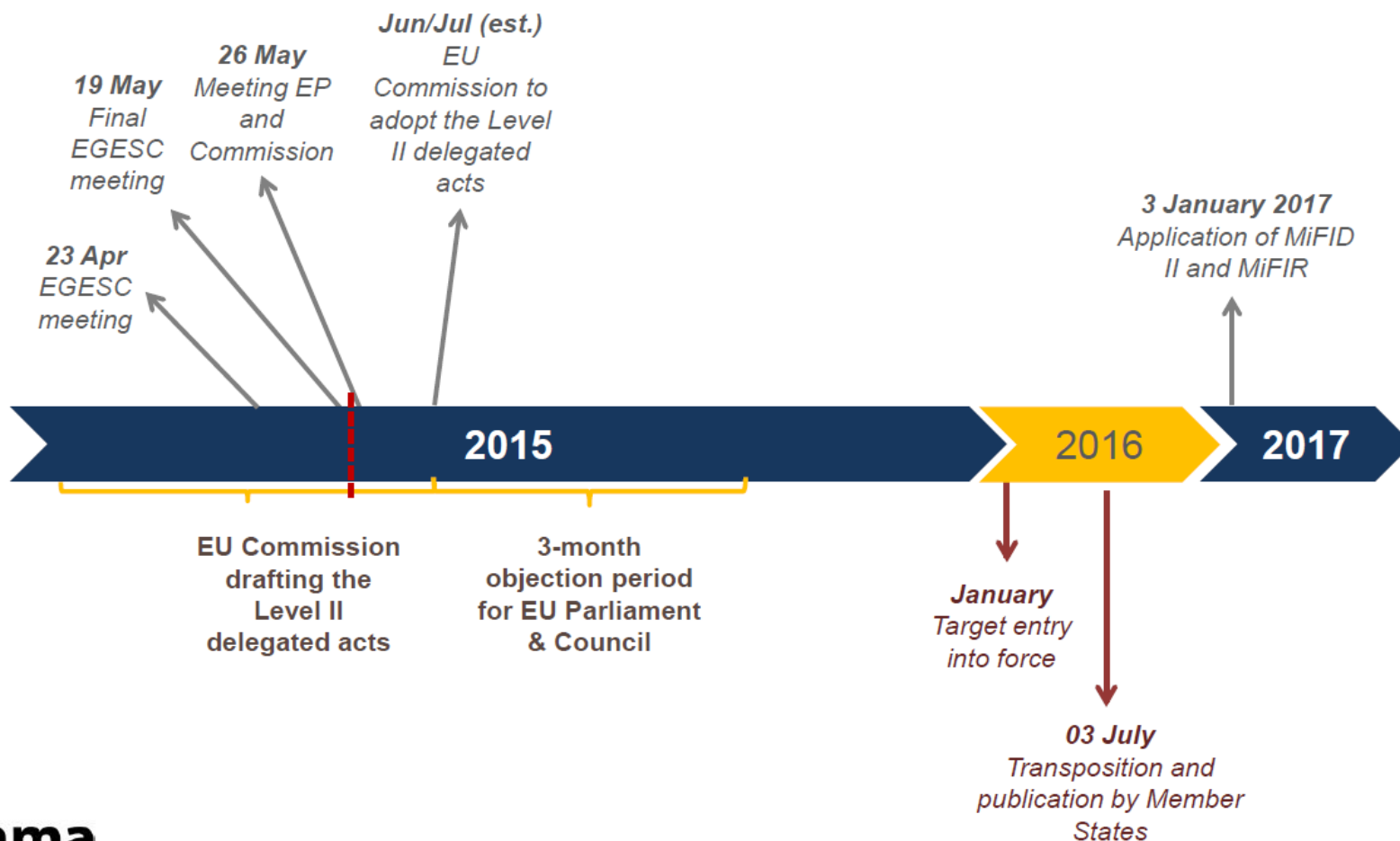
Current Regulatory developments – Capital Markets Union

9

- The EU asset management industry has already stressed two points of particular importance for the EU to achieve progress in the area of a single market for capital:
 - In the case of long-term investment funds in order to have a market success they need to be able to meet the needs of different categories of investors and to offer the right incentives.
 - The creation of an EU-single market for personal pensions has a key role to play in broadening capital markets in Europe.

Current Regulatory developments – MiFID II - timeline (delegated acts)

10

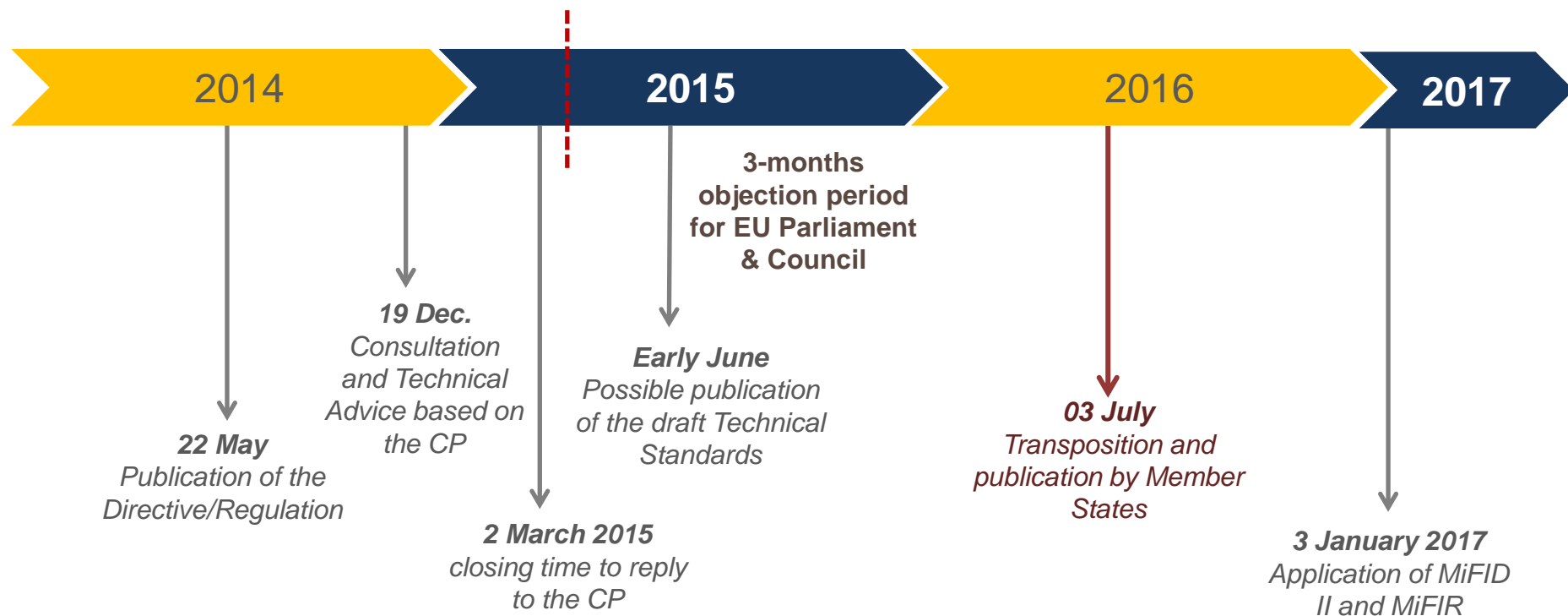


afama

efama

Current Regulatory developments – MiFID II Level 2 - Timeline (RTS)

11



Current Regulatory developments – MiFID II - Inducements

12

□ Inducements

- Ban on inducements for independent advice
- Ban on inducements for discretionary portfolio management
- Full transparency
- ESMA's advice on the definition of the quality enhancement should be clarified to create legal certainty and be in line with the mandate foreseen in the Level 1 text

□ Complex products

- Structured UCITS will be considered as complex products for the purpose of execution only services.
- All AIFs are automatically considered by ESMA as complex products, therefore no execution-only services
- Money market instruments will be considered non-complex products except those that embed a derivative or incorporate a structure which makes it difficult for the client to understand the risk involved

□ Cost disclosures

Alignment with requirements in upcoming PRIIPS KID with significant impact for UCITS KID

Current Regulatory developments – MiFID II - Research: Possible consequences of the proposed regime

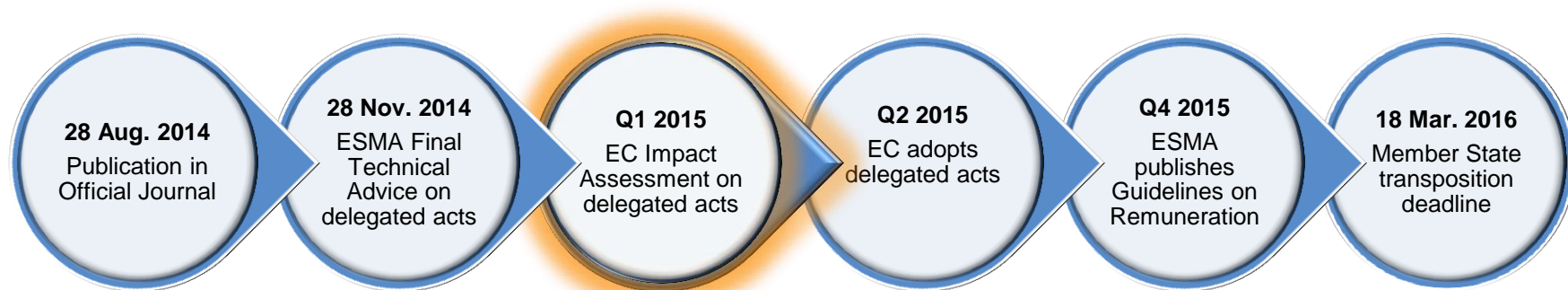
13

□ Investment Research

- The definition of investment research as put forward by the draft delegated acts is not sufficiently taking into account existing market practices developed in the different member states.
- A more comprehensive definition is necessary to allow and maintain alternative ways to organise payment of research provided that they all offer the same level of costs disclosures.
- Any decrease of the investment research will probably have an important impact on research on SMEs and in consequence an impact on investments in instruments issued by SMEs.
- Moreover such decrease will reduce the quality of data EU investors have access to.
- Important risks that research activities will be treated as inducements – it would be more appropriate to define instead what is not research as a guidance for regulators and market participants
- Competition issues as regards to non-EU investment funds that will be able to continue to pay for research via broker commission arrangements.

Current Regulatory developments – UCITS V – Timeline & State of play

14



UCITS V - Implementing L2 measures

15

- The EC shall adopt **delegated acts** (by 17 Sept. 2018) specifying:
 - ▣ Particulars to be included in the depositary agreement
 - ▣ Conditions for performing the depositary functions, including:
 - The type of instruments included in scope of custody
 - The conditions to exercise custody duties over financial instruments registered with a CSD
 - The conditions to safekeep financial instruments
 - ▣ Due-diligence duties of the depositary
 - ▣ Segregation obligation
 - ▣ Steps to be taken in case of delegation of custody function to a sub-custodian
 - ▣ Conditions under which financial instruments are considered “lost”
 - ▣ Definition of “external events beyond reasonable control”
 - ▣ **Segregation obligations, including asset protection at sub-custody level**
 - ▣ **Conditions for fulfilling the independence requirement**

Current Regulatory developments – European Long Term Investment Funds

16

- In June 2013 the European Commission launched its proposal on a new investment fund framework designed for investors who want to put money into companies and projects for the long term.
- The proposed Regulation is the Commission's response to fill the equity gap in the field of financing long-term investments by creating a European investment culture where retail and institutional investors take a longer-term and strategic view when placing their savings and investments.
- EFAMA strongly believes that a shift towards new and diversified lending structures and more market-based finance will play a key role in addressing this financing gap and ensuring financing for longer-term projects.
- Asset managers have a primary role to play in this changing landscape of long-term financing through their experience in managing collective investment schemes that pool and diversify the investments of different investors.

Current Regulatory developments – European Long Term Investment Funds

17

- At the same time, we consider that a one-size-fits-all approach will not allow ELTIFs to assume their role and meet the needs of different groups of investors and different scale of projects.
- In particular, EFAMA has asked for
 - A flexible redemptions rights regime;
 - A policy concerning the lifetime of the ELTIFs that will be adapted to the changing investment landscape for each fund;
 - Enabling investors such as pension funds and insurance firms to invest in ELTIFs by providing them the necessary calibration when it comes to their capital requirements;
 - Additional flexibility for professional investors, in particular concerning the diversification and transparency rules;
 - Enlarging the scope of ELTIFs eligible assets to include SMEs that although listed (several times for regulatory policy reasons amongst others) are still lacking access to financing and a wider range of real assets;
 - Substantial fiscal incentives for the long-term investors of ELTIFs.

Current Regulatory Developments

18

Regulatory initiatives at European level

Initiatives **targeting specifically** the European AM industry

- UCITS V
- UCITS VI
 - ETFs
- Money Market Funds
 - AIFMD
- Venture Capital Funds
- Social Entrepreneurship Funds
- Long-term investment funds
- FSB/IOSCO Consultation on G- SIFIs

Initiatives **targeting financial institutions, comprising** the European AM industry

- PRIIPs
- MiFID II
- Securities Financing Transactions
 - EMIR
- EU Supervisory structure
 - Benchmarks
- Financial Transaction Tax
 - Shareholders Rights Directive

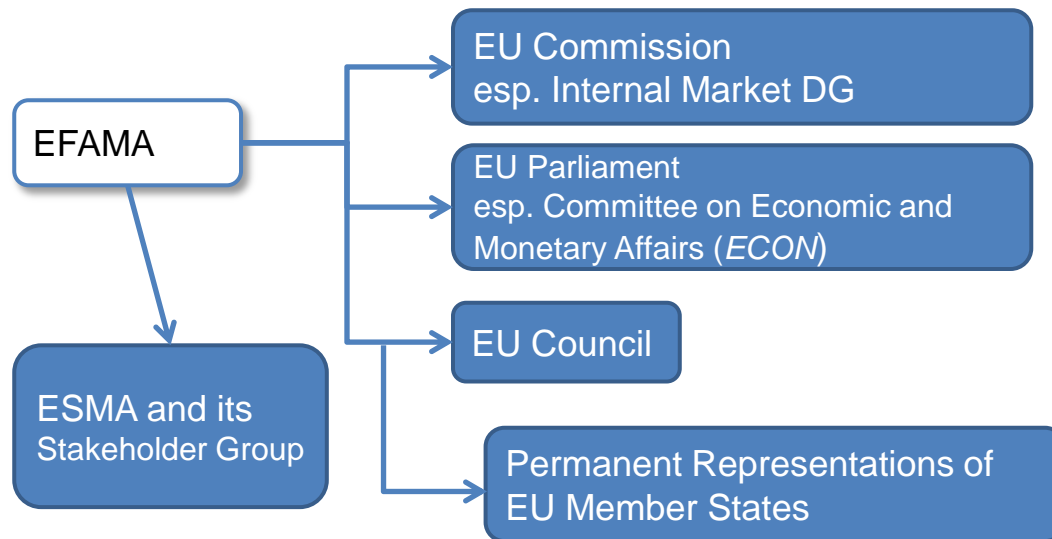
Initiatives **not targeting the AM industry** but having **spill-over effects**

- Banking Union
- Recovery and resolution
- Banking Structural Reforms
 - Solvency II
 - IMD II
 - IORP II
- Credit rating agencies

- FATCA (US)
- Dodd Frank (US)
- Volcker Rule (US)
- European national initiatives to
 - Ban inducements (e.g. UK, NL)
 - Ban complex products (e.g. Belgium)

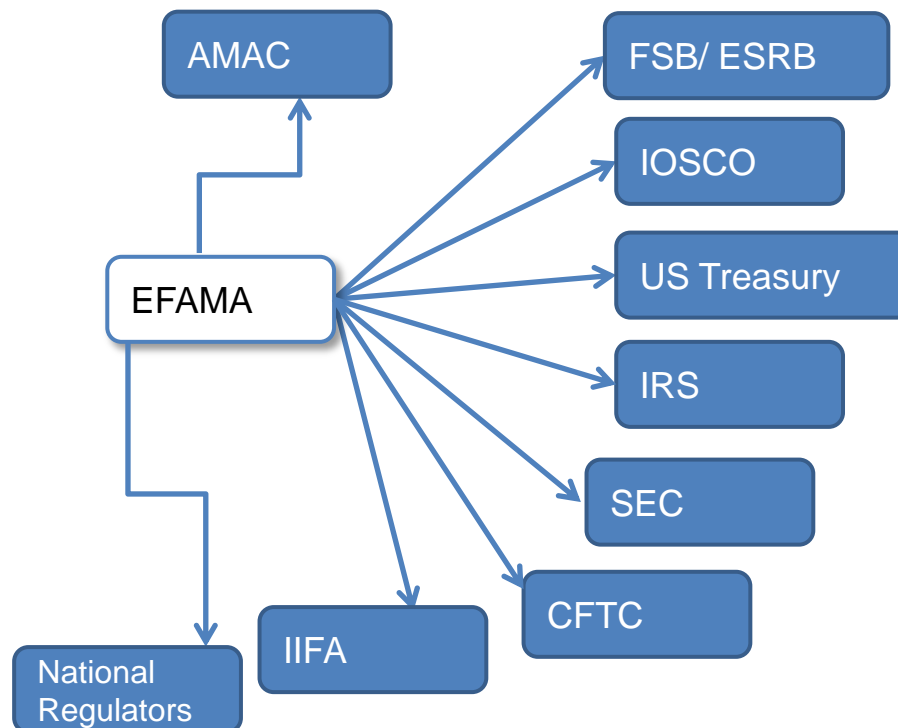
EFAMA's "Partners in Dialogue" - Europe

19



EFAMA's International “Partners in Dialogue”

20



"EFAMA Land"

21

27 Countries:

23 EU Members, and
Liechtenstein
Norway
Switzerland
Turkey

63 Corporate Members

25 Associate Members

= Investment Management: EUR
19 trillion of which EUR 9.1 trillion
through 55,000 investment funds
(end December 2014)



Thank You!

Contact:

EFAMA

Rue Montoyer 47
B-1000 Brussels, Belgium
Tel. +32 (2) 513 3969
Fax + 32 (2) 513 2643
E-mail: info@efama.org