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Asset Management: a key contributor for growth

EDITORIAL

The AFG held its first **European Congress of Asset Management** on 13 October. The inaugural event was a great success. The quality of the speakers and wide-ranging discussions, with an audience made up of key figures from the French and European financial sector, made for a memorable event. The Congress ties in with our aim of working together to build a European asset management industry that drives growth. We wanted the Congress to be a truly European event, because Europe today is at a crossroads. We believe that the asset management industry can help to address its current challenges.

► **The first challenge for Europe is clearly Brexit.**

The UK voted for Brexit: it is unfortunate, but now we need to respond. The financial industry is an essential element of the building of Europe. The Brexit vote can and should be seen as an opportunity to strengthen the European Union as a whole, and particularly the financial sector and asset management industry. Two factors are essential for that process.

Firstly, the European Union needs to assert itself more as a powerful entity that defends its legitimate interests – not a market that is open to all without demanding anything in return. The United Kingdom cannot continue to benefit from cross-border financial access. This is the logical outcome of its decision to opt out of European Union rules. We need to create a partnership based on the mutual interests of the European Union and United Kingdom, built on a foundation that preserves the interests of EU Member States.

Secondly, the European regulatory system needs to evolve, with regulatory content and enforcement adapting to reflect the current situation and issues. Although stronger regulation was required in the wake of the 2007 financial crisis, too many of the reforms failed to address the real issues in Europe, particularly the need for growth. Too much regulation focuses on content rather than structure, making the rules opaque and failing to fully allow for national specificities.

► **The second challenge for Europe is growth**

Growth is the only way to reduce the excessive levels of accumulated debt, to bring unemployment down and to protect a social security system that is unequalled, particularly in terms of healthcare and pensions, thereby guaranteeing social and political stability in Europe.

The asset management sector has a role to play in overcoming these challenges. Our primary task is to provide an efficient service for institutional and private investors, devising investment and savings solutions that meet their needs in terms of risk and returns. Yet at the same time, our sector has a major impact on economic performance: it is the place where investors' needs meet corporate demand for financing, be that in the form of debt or equity. Our industry has an essential role to play in developing pension savings solutions, which are set to become a core priority, given the current European population trends. The European asset management industry is strong and a genuine strength for Europe.

L'Asset management, un atout pour l'économie européenne

Asset Management,
a strength for the European economy



ASSET MANAGEMENT, A STRENGTH FOR THE EUROPEAN ECONOMY

Didier Le Menestrel, Chairman of La Financière de l'Echiquier and Chairman of AFG's Competitiveness Commission, opened the first panel discussion, which focused on this topic. The panel comprised Agnès Romatet-Espagne, Director of companies, international economy, and tourism promotion at the French Ministry of Foreign Affairs; Alexander Schindler, Chairman of European Fund and Asset Management Association (EFAMA) and member of the Executive Board of Union Asset Management Holding AG; and Giordano Lombardo, Vice Chairman of Assogestioni and CEO of Pioneer Investments.

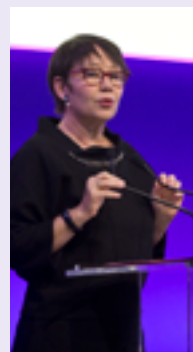
"Within the Paris financial sector, asset management is today an innovative and competitive industry, built on a recognised talent pool and cutting-edge ecosystem. It has a significant impact on economic growth and is a strength for the whole of mainland Europe," emphasised Didier Le Menestrel.

"Investment funds are probably one of the best examples to date of the effectiveness of the European Union's single market in financial services, although further improvements are needed. To that end, EFAMA has just submitted our recommendations to the European Commission," explained Alexander

Schindler. He went on to stress the importance of financial education, responsible investment, and collective and individual pension savings schemes.

Giordano Lombardo confirmed that creating pan-European retirement savings schemes is a priority: the schemes will be able to channel savings into long-term investments, particularly into the real economy – small and mid-caps, infrastructure, etc. Like EFAMA and all industry professionals, Giordano Lombardo welcomed the announcement made at the end of September that the European Commission plans to publish a draft text on Pan-European Personal Pensions (PEPPs) in 2017. PEPPs will make pensions portable between European countries.

Agnès Romatet-Espagne highlighted the need for industry professionals to continue raising awareness among European citizens and in the wider world. The French authorities, especially the Ministry of Foreign Affairs via the embassies, will be more proactive in promoting French expertise and, more generally, asset management as a key potential growth driver in Europe. Ms. Romatet-Espagne stressed the importance of reciprocity in the international arena.



Excerpts from
speech by
Odile Renaud-Basso
Director of The French
Treasury Department

The presence of a strong asset management industry in Paris is an advantage both for France and for Europe.

The industry is a recognised expert in specialist asset management, such as infrastructure, venture capital, responsible and green investments, as well as in traditional management. The FROG working group, which brings together industry professionals and regulators, is setting an excellent example and deserves recognition.

Asset management is the interface between savings and corporate financing requirements and plays a key role. If new sources of market financing are to be effective and stable, they need to be able to draw on extensive, stable, long-term savings. The public authorities in France and in Europe – the latter primarily via the Capital Markets Union – need to steer developments in that direction.

The French Government has begun work on making it possible to distribute fund units through the Blockchain, which should make it easier to sell them crossborders.



Excerpts from
speech by
Valdis Dombrovskis,
Vice-President of the
European Commission

We want the Capital Markets Union to provide more options for people who want to

save for their retirement. We will use a public consultation to determine whether it is possible to create competitive and simple cross border personal pensions.

As part of the Capital Markets Union, the European Commission is also working to strengthen Europe's venture capital markets to increase scale, diversity and choice.



Excerpts from speech by Enrico Letta, Former Italian Prime Minister, Dean of the Paris School of International Affairs Sciences Po

The Brexit vote is an unprecedented event that has thrown up many

as-yet unanswered questions:

How will the United Kingdom's exit work in practice?

What will the new relationship between the United Kingdom and Europe look like?

How will other European countries respond, given that this year will be an election year for many of them?

The European Union needs to be reinvigorated and managed independently of the technical issues surrounding Brexit.

In order to achieve growth, we need to build on the post-crisis measures set up in 2012 and 2013: Banking Union, European Stability Mechanism, etc.

In particular, that means strengthening the euro infrastructure, expanding the Juncker investment plan and making it more effective, and devising new tools.

We want to knock down barriers to investment, ensure companies can sell into bigger markets, and enable consumers to find the products that are right for them wherever they are in the EU.

Compared to other jurisdictions, European asset managers are already subject to very detailed regulatory requirements to mitigate systemic risk. This is the case for both UCITS and AIFs.

We need to consider adjustments to increase funding to the wider economy. We need to look at whether we can make legislation more proportionate. And see whether the compliance burden can be reduced for businesses.

European asset managers have valuable expertise. We have the opportunity to build on this, to unleash the single market's full potential and support growth in Europe.



ASSET MANAGEMENT, A SOLUTION FOR GROWTH

The panel discussion was chaired by Daniel Roy, the Chairman of the Board of Banque Postale Asset Management and Chairman of AFG's Non-listed Assets Commission. The panel comprised Odile Renaud-Basso, Director of the French Treasury Department; Steven Maijoor, Chairman of the European Securities and Markets Authority (ESMA); Philippe Salle, CEO of Elixir Group; and Christophe Bavière, Chairman of Idinvest Partners and Chairman of AFG's Private Equity Committee.

Daniel Roy stressed that asset management is a driving force in the world. It plays a leading role through allocating capital, devising solutions focused on assets and liabilities, providing market liquidity, and managing risk and/or volatility. Asset management has five basic tasks: maintaining the balance between short and long term; geographic diversification; distribution by sector and company; balancing the public and private sector; and promoting best practice. "Asset managers believe that the market is a good thing, but the regulatory framework needs to be clear, with a balanced approach to taxation."

Philippe Salle stressed that although his company currently has no difficulties obtaining finance, the asset management industry will

need to be able to increase capital flows into the economy in future, which can only be achieved by creating genuine pension funds that mobilise long-term savings.

"The innovation cycle is becoming increasingly global and constantly gaining speed," while demand for finance from SMEs and ETIs is growing, commented Christophe Bavière. This urgency affects innovative companies and traditional SMEs alike.

Steven Maijoor focused on the importance of asset management as the link between savers and businesses. He encouraged European industry professionals to continue to reduce costs, particularly distribution costs, make information more transparent – an essential factor in building saver confidence – and extend the applications of new technologies.

"The allocation of savings has to satisfy savers while also providing effective financing for the economy." Odile Renaud-Basso highlighted the importance of monitoring financial stability and using targeted taxation and regulation to encourage long-term investment.

All the speakers agreed that the asset management industry needs to offer savers investment solutions that suit their risk/return profile, while also providing financing to drive the economy.



ASSET MANAGEMENT, A SOLUTION FOR PENSION SAVINGS

Joanne Segars, Pensions-Europe, Chief Executive of the Pensions and Lifetime Savings Association; Allan Polack, Group Chief Executive Officer of PFA Pension; and Guillaume Prache, Managing Director of Better Finance took part in the panel discussion chaired by Philippe Setbon, CEO of Groupama Asset Management and Chairman of AFG's Savings Solutions Commission.

At a time when pay-as-you-go pension schemes are struggling to cope with population trends, asset managers need to provide structural solutions that can guarantee the long-term viability of pension systems. Capital allocation has to be the starting point.

"We need to create products that will be affordable for future generations, given that their situation will be different. We need to integrate risk by looking at the long term and provide collective and personal pension savings solutions – the PEPP proposal is a step in the right direction," Allan Polack explained, emphasising the importance of offering suitable options for savers.

Guillaume Prache, speaking on behalf of European savers, highlighted the need for "simple, standardised,

affordable and transparent products." In light of the wide range of requirements, he also welcomed the PEPP proposal, confidently claiming that "asset management is set to enter a golden age" provided that the industry is able to improve its product range and its competitive edge.

Joanne Segars emphasised that asset managers in the United Kingdom play a significant role in personal and collective pension schemes, whether defined benefit or defined contribution schemes. Asset managers serve as providers for pension funds but play also increasingly a direct role. Asset managers therefore need to continue to improve information about performance and costs, while also strengthening corporate governance and responsible investment.

All participants supported the European Commission's proposal to establish a Pan-European Personal Pension product (PEPP). The draft text ties in with the AFG proposals on complementary pensions: a long-term investment product that is personal, suitable for a very wide audience and flexible, with the option of drawing the savings as an annuity or as a lump sum.



Excerpts from speech by Benoît de Juvigny, Secretary General of AMF

Asset management is a strong industry that is currently undergoing a period of structural growth. The industry has access to a large pool of savings and a high-quality environment that is fully integrated in the European market.

The sector provides essential financing for the economy.

The regulator is fully involved, working alongside industry, to improve its competitiveness and promote it, not least through the FROG initiative. The regulator provides support for all business activities, from creating the FINTECH division to implementing the AGILITY programme and introducing the 2WeekTicket process.

Investor protection is crucial. At the European level, we need to continue to promote transparent and relevant information for all savings products. The Regulation on packaged retail and insurance-based investment products – PRIIPS – seeks to address a fundamental issue, but the European Commission has yet to define the technical rules, which must not be rolled out too hastily. The cross-border passport for funds is working well. There is still room for improvement, but we need to remember that the passport relies on investor confidence, which does mean that national authorities can monitor marketing documentation for funds sold from another country.

The AMF is taking a lead in the current international discussions on the potential financial stability risks associated with asset management. The regulators responsible for stability are aware of the specificities of the sector: the approach used for banks is not appropriate for funds and asset management companies.

Regulation must also allow asset management to provide financing for the economy. This is one of the issues at the heart of European discussions on the Capital Markets Union. In France, we have approved the first European long-term investment funds (ELTIFs) and over 40 asset management companies are now authorised to select debt instruments and/or provide loans.

