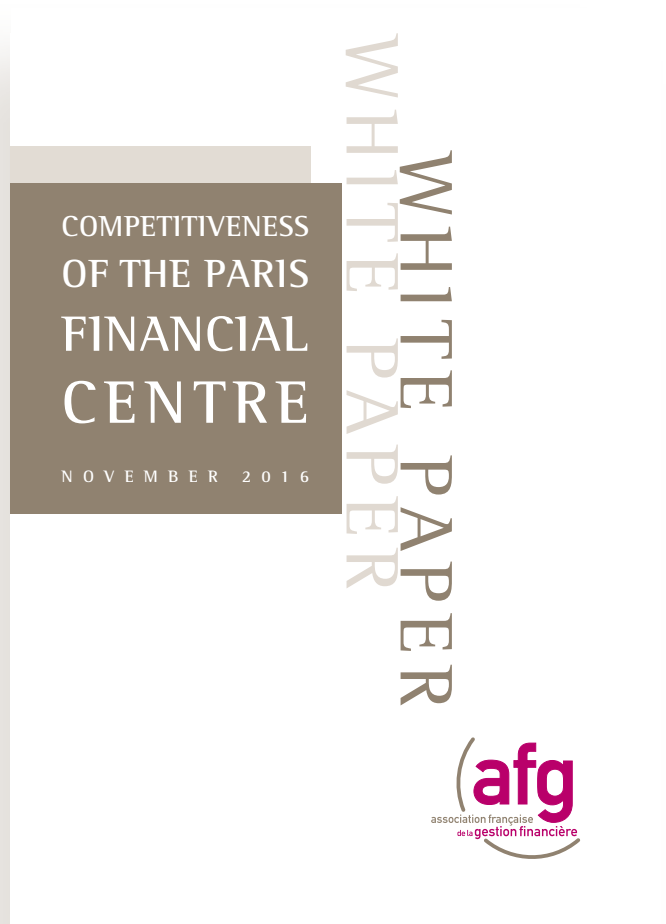


WHITE PAPER

COMPETITIVENESS
OF THE PARIS
FINANCIAL
CENTRE

NOVEMBER 2016





Contents

Preface by Yves Perrier	2
Foreword by Didier Le Menestrel	3
The Paris financial centre in 2025: the hub of a unified market of 500 million Europeans	4
An erosion of growth since 2008	5
One ambition, 3 strategic orientations	7
Appendix: 10 tangible solutions	17



Preface by Yves Perrier

Chairman of the AFG

When entrusting the writing of a White Paper on the competitiveness of the Paris financial centre to Didier Le Menestrel, Chairman of the AFG's Competitiveness Commission and CEO of La Financière de l'Echiquier – one of France's leading independent asset management firms – the AFG strategic committee knew that his on-the-ground experience and long-term vision would result in clear, tangible proposals.

The roadmap he has drawn up for asset management is both ambitious and realistic. It rightly emphasises the **great strengths of the French asset management industry**, which should be promoted and communicated on a regular basis, and not just to public decision-makers. This is even truer outside France, as shown by the FROG working group launched by the AMF, with AFG's full support. For this reason, we decided to improve the image of France's asset management abroad, notably by creating an "Ambassador" role, whose mission will be to send a positive, assertive message to international networks of professionals, specialist media and investors. This is also why we are stepping up our interactions with other stakeholders in the ecosystem – associations of retail investors, distributors, depositaries, professional bodies and market infrastructures – to truly bring the different players in Paris's financial centre into alignment.

The White Paper by Didier Le Menestrel takes a long-term perspective of investment and prepares the ground for further **objectives for our collective commitment**. These are naturally regulatory and fiscal in nature, since the steady, motivating framework they support is an absolute prerequisite to ensuring growth and investor confidence. They also address management and marketing methods, as we must constantly adapt our savings and investment solutions to our clients' needs and enhance our range of solutions not only with financial securities but also, increasingly, with real assets. Asset management plays **an important and growing role at the crossroads of the financial circuits** between, on one side, savers wanting to preserve their financial assets and investors seeking returns and, on the other, companies looking for funding.

Lastly, this White Paper proposes several innovative courses of action to be pursued, in France, with the creation of free zones enabling our industry to foster growth in disadvantaged regions, as well as in Europe, with the introduction of an ".eu" ISIN code for European funds complying with directives granting a "passport".

The period we are entering is crucial. The financial markets will remain difficult, as Brexit prompts a rethink of the nature of the European project and the upcoming French presidential election reopens the debate on our new growth models.

Supported by the profession and its ecosystem in France and Europe, the **operational recommendations** in this White Paper will contribute to the major debates ahead and the decisions that will emerge from them.

The asset management firms under the umbrella of the AFG all share the same entrepreneurial, determined and responsible mindset. The proposals in this paper will be completed in the coming months by proposals on the financing of small to mid-sized companies, the tax treatment of savings and – a subject that Didier Le Menestrel has appropriately emphasised – the development of pension savings.



Foreword by Didier Le Menestrel

Chairman of the AFG's Competitiveness Commission,
Founding CEO of La Financière de l'Echiquier.

Behind each business or project, there are people, ideas and capital. And an entrepreneurial desire to make a positive contribution. Since the portfolio management company status was created in 1990, French asset management has grown tremendously and produced impressive entrepreneurial successes in a field where everything remained to be done. It has developed by forming bridges between savers and businesses, serving their common interests. Built with passion and pragmatism, step by step, the asset management industry still contains **exciting sources of creativity and innovation today. What about tomorrow?**

I belong to that spontaneous generation of entrepreneurs who helped to grow asset management in France, creating the industry from scratch, shaped by crises and progress. For the past 25 years, driven by the same hunger for engagement, I have been building ties and doing my best to enhance the value of the savings of the French people, working alongside passionate, motivated entrepreneurs. Today, this first generation of builders must meet daunting new shared challenges.

Talent mobility, the digitalisation and financialisation of the economy and the changing face of employment have thrown us enormous challenges and revealed an imperative need: to break away from ideologies and **stay agile, free to innovate**. If we are to move forward, be inventive and participate in the planet-wide battle to create value, our country needs energy, risk-taking, and wealth creation. Combined with this need to innovate is the **challenge of competitiveness** in a highly technical industry – a world with no boundaries other than those established by local regulations, which stifle growth at the expense of the French people.

Though France has been weakened, lagging behind at the heart of an attractive¹ Europe and in a world undergoing deep, irreversible change, the high-quality service its asset management industry delivers to its clients, a guarantee of long-term success; its talented people, among the best skilled in the world; its mathematical and quantitative research; its young prodigies and globally recognized FinTech companies; and its conquering spirit are all distinctive assets for our economy.

My commitment toward the Paris financial centre is like the one that has enabled me to construct, over the years, my own entrepreneurial adventure: it's a commitment to high standards, with a desire to share and give back to the community what it has given to me.

I will strive hard to channel all available energies into a single, ambitious project: directing savings toward growth and the economy.

Professionals in the savings industry have a bright future ahead. France would be wrong to not wager on their collective intelligence and these unique French talents.

⁽¹⁾ Attractiveness survey: La France distancée, *Ernst & Young*, May 2016.

The Paris financial centre in 2025: the hub of a unified market of 500 million Europeans

To provide France with a powerful navy, Jean-Baptiste Colbert ordered in 1670 a million trees to be planted in the forest of Tronçais, whose trunks and branches would supply high-quality timber to the naval industry two centuries later. Forward-thinking means expanding the time frame in view and drawing a roadmap. The path the AFG plans to take will create a favourable environment for enhancing the competitiveness of our financial centre by 2025.

Our ambition is clear: within the next decade, we intend to **make the Paris the financial reference point in continental Europe**. There are substantial arguments for the Paris financial centre **becoming the hub of a unified market of 500 million Europeans**. At the heart of a region representing 28% of France's GDP and forming an intellectual, scientific and financial melting pot, it benefits from a diversified, high-performing ecosystem and a global financial industry – asset management in particular – which taps into a savings reservoir like few others in Europe.

A strategic industry of excellence, asset management supports a vibrant French economy: with more than 630 asset management firms, of which four rank among the global top 20, it has €3,600 billion – out of €21,000 billion in Europe – under management, generates 85,000 jobs and contributes to the dynamic growth of a financial industry employing over one million people. Led by professionals whose skills are sought-after the world over, founded on innovation and a world-renowned mathematical culture, French asset management is also distinguished by an unparalleled sense of fiduciary duty. **As the Capital Markets Union (CMU) is being developed** in Europe, these strengths represent competitive advantages.

Ensuring that asset management remains competitive means boosting the positive effects of an innovative industry on the real economy – an industry with immense growth potential and multiple strengths, but that remains impeded by fiscal instability and overly burdensome regulatory constraints. Our aim is to help to reaffirm its leadership in management and in distribution; as a minimum, by giving it the means to compete on a level playing field, notably with Luxembourg and Ireland.

Competitiveness is not an end in itself. Enhancing the attractiveness of the Paris financial centre does not only meet a need of the industry; it serves a collective need for growth. Reinforcing asset management lowers the risk of seeing high added-value jobs move crossborders and sustains the momentum of innovation, as well as France's financial stability, economic sovereignty and influence, especially that of its regulator. Our emphasis on making the Paris financial centre more attractive has both short-term and long-term payoffs, by enabling future growth opportunities to be seized. The tangible measures we are recommending will have significant immediate effects feeding not just asset management and the French finance industry, but the entire economy. In the context of the CMU, they will buttress the growth of the European economy.

To achieve this ambition, a coordinated and resolute effort from all stakeholders is required. We also need strong political will to implement an array of regulation-adjusting measures and fiscal reforms.

The proposals in this White Paper can help to boost distribution of French funds abroad and the competitiveness of French asset management. They create **long-term investment opportunities** and enable savings flows to be adapted to the needs of firms and the economy. The rapid adoption of all these measures will allow us to tackle the real challenge of the 21st century: **the challenge of pensions** for 500 million Europeans.

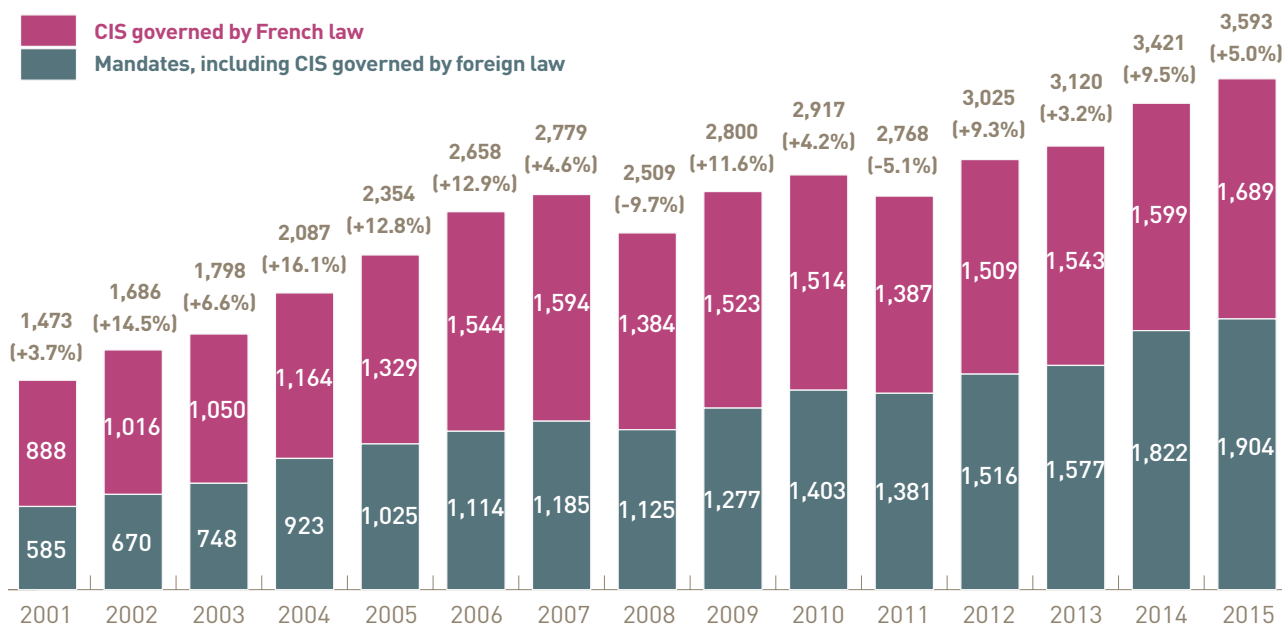
An erosion of growth since 2008

With €3,600 billion under management in 2015 – almost twice annual GDP – French asset management is a powerful industry creating value-added for the entire financial sphere. In the past 20 years, assets under management have increased two-and-a-half-fold.

Supported by the right regulation, the asset management industry has steadily developed ever-evolving skills and world-class expertise in management, custody and distribution (the CSD model). Its growth has been fuelled by abundant savings in France, where the traditionally high savings rate of about 15.5% exceeds the euro zone average (12.7%). However, these savings are not heavily invested in financial assets and reveal a high proportion of low-risk investments, such as money market funds or “Livret A” savings accounts. These low-risk vehicles account for nearly 80% of financial savings in France (€4,258 billion in 2014, two times the GDP), which in turn represents 40% of an estimated net worth of €10,000 billion². This distinguishing characteristic, which has contributed to the excellence of the French asset management industry, explains the severe impact of the 2008 crisis, whose shock waves shook the entire ecosystem.

Since 2008, the industry’s growth has been eroding. At the end of 2015, while European funds posted 11.9% growth (annualised since 2008) of assets under management, asset management in France only increased by 5.3%. After leading Europe for many years, the French asset management industry is currently the second largest in Europe, with **20% of market share**, but lags far behind the United Kingdom which captures 37% of market share³. This erosion is widespread and encompasses both institutional and retail investors.

Assets managed on behalf of third parties on the French market (billions of euros)

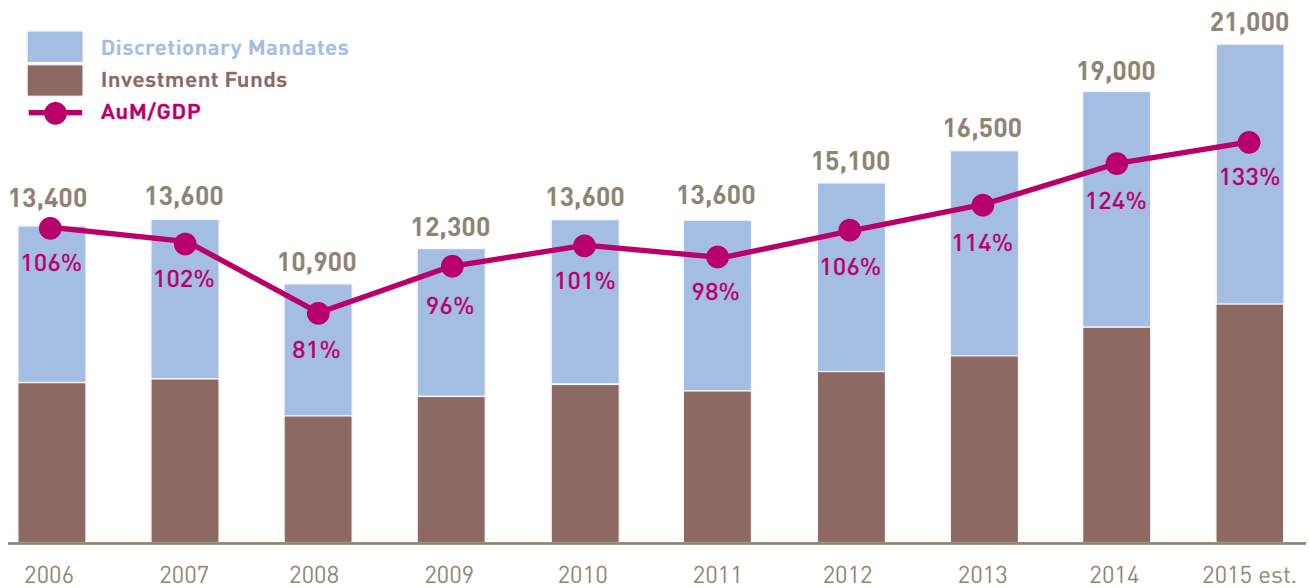


Source: AMF/BDF/AFG calculations.

⁽²⁾ Banque de France study, 2015.

⁽³⁾ With €6,100 billion of assets under management, the United Kingdom is one of the world’s largest markets, along with the United States. Germany, the United Kingdom, and France account for 67% of assets under management in Europe. Asset Management in Europe, EFAMA, July 2015.

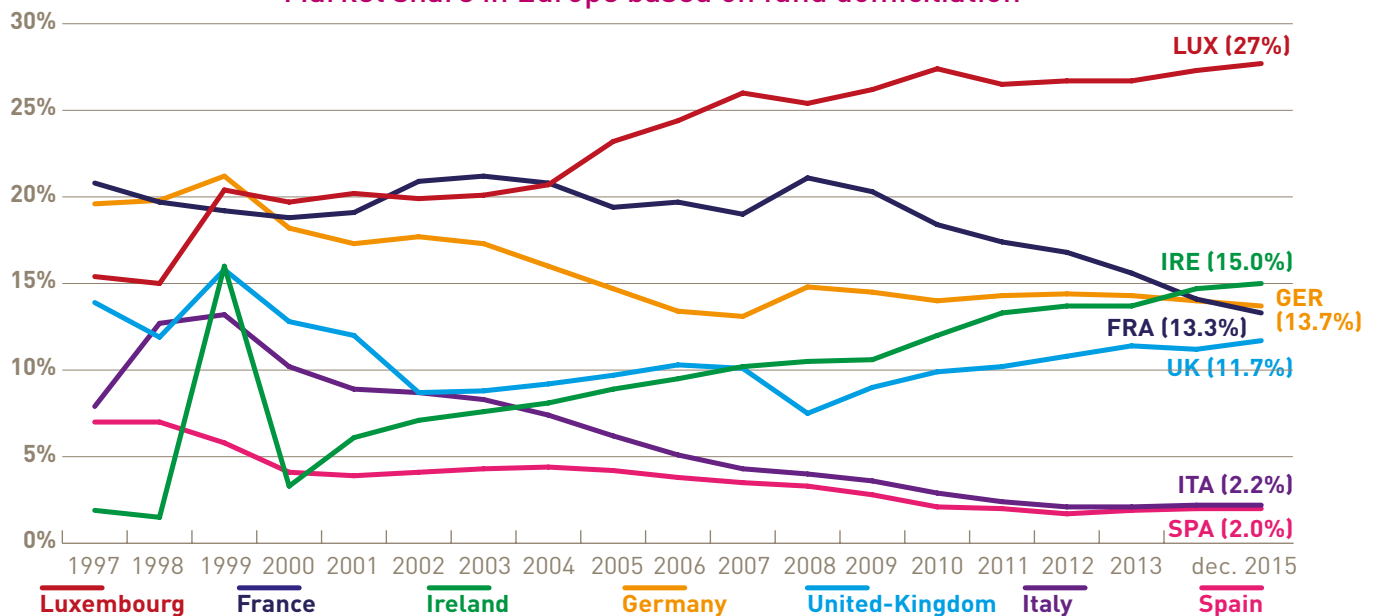
Assets under management in Europe (billions of euros)



Source: EFAMA, October 2016.

This sluggish growth is particularly reflected in the fund domiciliation market – a low-profile business that is nevertheless essential to the vibrant growth of a modern financial centre. A study of fund domiciliation market share over the past 20 years clearly shows the spectacular rise of the Luxembourg financial centre, which has replaced France as the market leader.

Market share in Europe based on fund domiciliation



Source : EFAMA, AFG.

Ireland's and Luxembourg's financial centres, which lack both savings reservoirs and asset management expertise, have nevertheless succeeded in becoming export hubs, exporting even outside Europe, by focusing on highly technical areas, such as fund distribution, depositary duties, and prime brokerage. Today, their finance industries are experiencing significant growth. For example, in the space of 15 years, Luxembourg has established its leadership in domiciliation, with 27% of market share, ahead of Ireland (15%), Germany (13.7%), and France (13.3%), now in fourth place⁴.

⁽⁴⁾ EFAMA

This brief overview draws attention to the current stumbling blocks and emerging challenges for France's asset management industry. Creating a competitive, attractive financial centre requires significant adjustments to institutions and regulations, to supply French asset management with the means to anticipate major transformations to come: the technological revolution, the financing of pensions, and financial disintermediation.

Our ability to create the right conditions for success will be a major factor in enhancing the attractiveness of the Paris financial centre. The future of asset management depends on our agility and ability to capture new opportunities. It also depends on our ability to attract talent and investors by offering a stable, diversified and operational environment.

The relative erosion of asset management growth due to contextual factors is a warning signal. Every crisis has a silver lining: for the ancient Greeks, as in medicine, a crisis is a time for decisive action. The Paris financial centre is ready to seize the *kairos*, the right moment to act, and become the most attractive hub in continental Europe.

Eliminating technical constraints and adjusting regulations as proposed are measures that are easy to adopt. Urgent action is required: our country has the skills and innovation capacity in a strategic sector, as demonstrated by France's highly coveted FinTech industry, but if we do not act now, we risk damaging losses of influence and jobs.

One ambition, 3 strategic orientations

Given these observations, the AFG proposes three strategic orientations to boost the Paris financial centre:

- Stimulate long-term savings and diversify the wealth of the French people. Create an innovative **personal pension savings product** to be a common thread in the current debate in Europe. Such a product is crucially needed and meets a societal goal (track 1);
- Define an alternative fiscal model (track 2). Any initiative taken by public authorities to achieve true stability will reinforce the **attractiveness of our ecosystem** (track 3);
- Deploy **assertive, long-term communication** while pooling resources (track 4).

Summary of recommendations:

- Develop a pan-European personal pension savings product
- Define a clear, secure framework for securitisation
- Create a free zone for the finance industry
- Introduce a most favoured savings taxation clause
- Relax Solvency II constraints
- Increase the visibility of French investment funds and use new distribution models

Track 1: Long-term savings and diversified wealth in France

Recent research by the Citi⁵ group showed that pension liabilities in Europe are more than twice the size of national debt. In addition, in 20 OECD countries, the average level of unfunded liabilities represents 190% of GDP. The failure of our pay-as-you-go pension systems is inevitable, and if nothing is done the social contract may be broken. The required funding for pensions, currently estimated at 0.7 point of GDP, will inexorably rise over time. Publishing the amount of unfunded pension liabilities on an annual basis would be a simple, useful measure to adopt to evaluate our needs.

French asset management, which combines powerful savings with renowned expertise and diversified talents, has many strengths. But holding good cards is not enough. We also need to steer savings toward long-term vehicles, so that they support growth and increase in value for individual savers. This calls for new savings tools. The creation of personal and exportable pension savings products resonates with the discussion that has been launched at European level. The AFG's upcoming White Paper⁶ on retirement savings will address this point in more detail.

These new-generation products are an opportunity for the French asset management and insurance. Our industry must prepare to manage the pensions of some 500 million Europeans.

Solution N° 1: Design an innovative personal product specifically for pension savings

Asset management has the full potential to solve the pensions equation and spearhead a new mindset: the era of individual responsibility is here. European-level discussions have opened the way. French asset management has a window of opportunity to deploy new pension savings solutions that will benefit our country and the European Union.

France is one of the last countries in Europe that has still not adopted adequate measures to protect retirement pensions. Only an alternative pension savings system can guarantee the sustainability of pensions for the French people, who must be rapidly educated about this situation. Placing retirement at the forefront of debate will raise awareness and bolster the financial culture of the French people. This is an excellent opportunity to give a shot in the arm to all financial advisory and management professions in France.

Move to individual savings

Individual savings is the only way to ensure a fair, sustainable pension system. Examples from abroad, from Denmark (where savings are three times its GDP) to Canada, combining mandatory pay-as-you-go schemes with individual supplementary funded schemes, demonstrate the effectiveness of this choice.

Our pensions system is the product of our country's history and our cultural and political choices. Designed over 70 years ago, founded in intergenerational solidarity, it is currently close to suffocation. Population aging, increased life expectancy, the rise in unemployment and the digital revolution are all factors that have impacted our mainly pay-as-you-go model and unbalanced public finances. The share of public expenditure on pensions is currently 13.7% of our GDP, compared with an average of 7.2% for all OECD countries.

"He who would have clear water must go to the head of the fountain." Asset management has every resource within reach to solve France's problem: topping the list are abundant savings flows.

⁽⁵⁾ The coming pensions crisis, March 2016.

⁽⁶⁾ Publication date: end-2016.

But these savings are marred by a several weaknesses: our 16% savings rate is one of the highest in Europe⁷, but two-thirds of the French people's wealth, estimated at €10,000 billion – almost five years of GDP – is invested in real-estate. Life insurance products attract €1,530 billion, an amount unmatched in Europe and which has tripled in the past 15 years. Although positive, the recent upswing in investment in unit-linked vehicles tied to life insurance products does not constitute a savings solution specifically earmarked for retirement.

To direct savings flows toward pension funding, new voluntary savings instruments must be created that are designed exclusively for this purpose. In our country, a never-ending ideological debate surrounds fully funded versus pay-as-you-go systems: this solution would reconcile both. The individual pension account would complement the state-run pay-as-you-go scheme, life insurance products and European measures already in place. It would be invested in assets that finance companies (equity, bonds, UCITS), thereby offering the added benefit of redirecting capital back into the economy, growth and employment. This solution would be a first, decisive step toward an efficient Capital Markets Union.

Creating an innovative new product follows the direction taken by public policy makers, as outlined in the “Macron” law and then the “Sapin II” law. Devising a new generation of personal pension savings products, as is being proposed in Europe⁸, will require adjustments to the regulatory framework. Contracts managed by insurers – worth €150 billion – must comply with tight, dissuasive prudential norms. In its upcoming White Paper on retirement savings, the AFG will point out opportunities for improvement and specify how the legal and tax frameworks must be modified to develop collective and individual long-term savings.

Solution N° 2: Relax Solvency II constraints for long-term assets

Asset management is hampered by a prudential framework that restricts diversification and risk-taking and penalizes some asset classes, notably the equity of small to mid-sized companies, both listed and unlisted, and securitisation vehicles⁹. Our ecosystem is fraught with rigidities that act as barriers for the banking and insurance sectors. Encouraged by insurance regulations, our savings finance the bond market and do not fully play their role as a growth optimizer. The French Economy Minister's recent initiative confirmed this: Solvency II allows the establishment of an ad hoc prudential framework for pension schemes, and “€130 billion could be redirected toward such vehicles, generating an equity financing capability of €15 to €20 billion.”

The AFG applauds the advances contained in the Sapin II draft law, in which article 33 provides for “a reform of the prudential regime for supplementary occupational pensions and the modernisation of certain individual complementary pension schemes.” By easing allocation constraints, the revised prudential regime will enable assets to be diversified and increasingly employed to fund businesses. This is a fantastic opportunity to nourish the breeding ground of French firms and conquer market share. We must go further and exercise our influence to modify the Solvency II directive itself.

Let's hope that this initiative is successful and triggers a fuller discussion of these issues which have been insufficiently addressed since the 2008 financial crisis.

⁽⁷⁾ Banque de France, 2015.

⁽⁸⁾ PEPP, announced in 2015.

⁽⁹⁾ 25 Investing and Financing Recommendations for the forthcoming Capital Markets Union – Fabrice Demarigny.

Track 1: Long term savings and wealth of the French people

→ Solution N° 1: create a personal pension savings product

→ Solution N° 2: relax Solvency II constraints

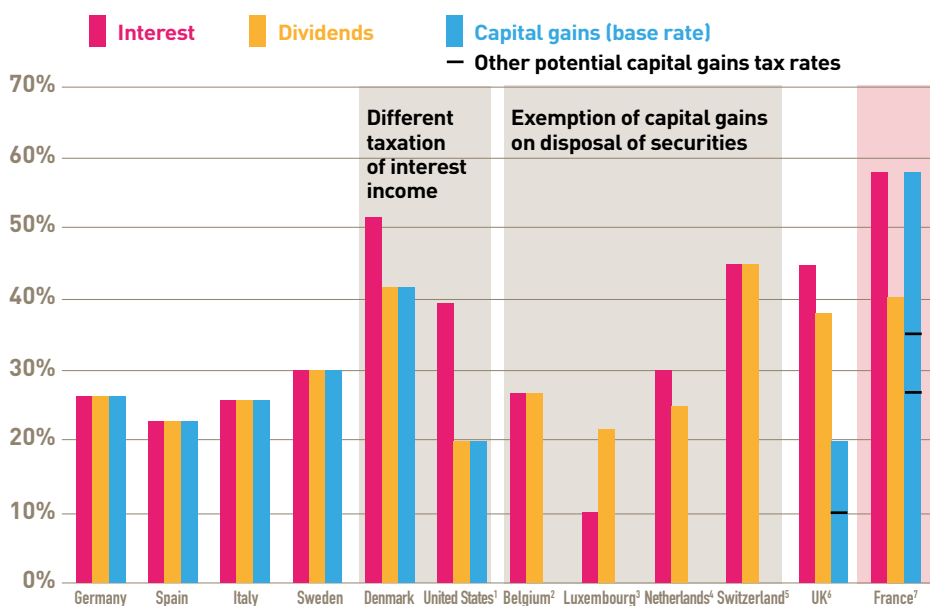
Track 2: A stable, sustainable fiscal framework

Finance, the spearhead of globalisation, pays no heed to borders. But this reality – though taken into consideration by other jurisdictions – is ignored by fiscal policy in France. The latter favours lower-risk, shorter-term instruments, while heavily penalising higher-risk, equity-based vehicles. Marked by a strong annuity culture, our country also applies high tax rates – the highest in Europe – penalizing retail and corporate investors. Recent decisions made in France accentuate its singularity even more and widen the gap separating it from countries like Germany, Spain, Italy, Norway and the United Kingdom, where motivating fiscal measures have been adopted to boost the contributions of the financial sector to their economies.

Straightening out our tax system so that it no longer encourages the annuity mindset that has been nurtured for decades and instead promotes risk-taking and long-term savings, while guaranteeing a stable fiscal framework, will also help our country attract international savings and manage them in France. Taxation is an essential factor in determining a country's attractiveness and directly impacts our competitiveness: the elimination of dissuasive fiscal measures for both individuals and businesses is under consideration.

Favouring risk-taking over the long term is the top priority. The implementation of attractive tax treatment for long-term, risky products – which benefit growth and company financing – is an essential prerequisite to the deployment of a pan-European pension product.

Investment income taxation – Marginal tax rates (2016)



Source: AMAFI.

(1) In the United States, exemption of capital gains for taxpayers in the 15% income tax bracket or lower. Dividends and long-term capital gains taxed at 20% for the highest income brackets and 15% for others. Interest taxed according to the income tax scale (up to 39.6%).

(2) In Belgium, capital gains are taxed if they are not realised within the scope of the normal management of private assets (16.5%); in addition, a special 33% tax now applies to short-term (called "speculative") capital gains.

(3) In Luxembourg, an exemption applies to non-speculative capital gains (> 6 months) on the disposal of a substantial shareholding (< 10%); the progressive income tax rate applies otherwise (after a 50% allowance for non-speculative substantial shareholdings).

(4) In the Netherlands, exemption of capital gains except for capital gains related to substantial shareholdings.

(5) In Switzerland, capital gains are exempted as a rule, except for capital gains related to business assets, which are subject to progressive income tax rates, after a 50% allowance.

(6) In the United Kingdom, a reduced rate applies to gains that do not exceed a certain threshold as well as certain special situations.

(7) In France, the capital gains tax rate is lower for longer-held securities (a complex allowance mechanism).

A Europe-wide comparative analysis clearly reveals the French exception: in most European countries, tax rates for investment income rarely exceed 30%.

Exempting capital gains entirely, as Belgium and Switzerland do, and eliminating the “ISF” wealth tax, would be welcome initiatives. Some countries, such as Denmark (since 1987) and Sweden (since 1991), have introduced a flat tax on income from savings. Our purpose here, however, is focused on a thorough exploration of the adjustments to be made to make taxation more favourable to risk-taking. We will focus on a main idea, the duration-risk pairing: **taxation is lower when the risk is taken over a longer period**. The key solution is a complete overhaul of savings taxation with the clear aim to promote investment in companies rather than the annuity products currently favoured by the French.

Improving financial education is an important complementary step. Savers must be made aware of the benefits of risk-taking and long-term investment. The importance of early financial education is recognized in the United Kingdom, where a high-priority, large-scale financial education program¹⁰ was rolled out nationally in British schools.

Competitiveness-boosting measures with a quasi-immediate effect will also help lighten the tax burden disadvantaging French companies, so that they can compete on a more equal footing.

Solution N° 3: Introduce a “most favoured savings taxation” clause

Maintaining a French exception, in a European market where significant inequalities exist, distorts the rules of play to the detriment of our industry. Revising our positioning with respect to European legislation will be a decisive move. France can follow the example of other regulators – unlike its current stance – and choose the most favourable interpretation of European regulations, applying the “*most favoured savings clause*”¹¹, to long-term and corporate equity investments, while adjusting taxation based on duration and risk.

Solution N° 4: Abolish the payroll tax, unique in Europe

France’s corporate income tax is the highest in Europe (36% versus an average of 23% in the European Union). The United Kingdom plans to lower its rate to 17%, a measure that will further amplify inequalities in Europe, once again, disadvantaging our country. In addition to this tax, there is the fact that employers pay significantly higher social security contributions than in our main competitor markets, and another French exception: payroll tax.

Created as a temporary measure in 1948, this payroll tax is a “*serious hindrance that diminishes French competitiveness*”¹² and encourages the offshoring of jobs. It is a progressive tax based on payroll, applied to businesses collecting little or no VAT, mainly in the financial and hospital sectors. It is payable when the employer is domiciled or established in France and must be paid in addition to social contributions. Its estimated cost is €6,000 per job, per year. According to a recent AFG survey¹³, the tax increases the cost of gross pay by more than 13% for portfolio management companies.

⁽¹⁰⁾ *Financial Services Authority – £11.5 million (€16 million) invested in schools.*

⁽¹¹⁾ *White Paper, Paris Europlace pour la campagne présidentielle [Paris Europlace for the presidential campaign], March 2012.*

⁽¹²⁾ *Report by the French Senate Finance Committee, 2001.*

⁽¹³⁾ *Survey of 32 portfolio management firms managing a total of €1.633 billion in assets – February 2016.*

This tax burden, aggravated by the new 20% tax bracket established in the 2013 Finance Act, is unparalleled in Europe. In today's era, where financial management is particularly mobile, this historical vestige maintained after the VAT became broad-based in 1968 undeniably shackles our industry's competitiveness.

The elimination of this French exception, or at the very least a drastic diminishment of the tax base and rate, will generate tax revenue through the growth of the asset management activity (largely compensating for the state's loss of income).

Why not go further and overturn perceptions, by adopting emblematic measures that send out a strong positive signal?

Solution N° 5: Create free zones for the finance industry

Faced with the offshoring of skilled work and technical and administrative resources, another pragmatic solution would be to create **free zones in the eastern region of France and the Paris region**, to cope with increased competition from foreign financial centres, especially Luxembourg, in fund domiciliation and international distribution.

The Grand Duchy's attractiveness is largely due to the virtues of its high-performing ecosystem: its fiscal stability, easy-to-understand regulatory framework and simple, pragmatic and efficient administrative organisation are all aspects that meet the expectations of foreign investors. Not only does Luxembourg's fiscal and labour environment promote the local hiring of administrative staff, since payroll costs are much lower, its corporate income tax is also much lower than in France.

The creation of free zones will enable French companies doing business there to compete better. It would also curb the drain on skills and capital. Favourable measures regarding corporate income tax, business tax and property tax would help depositaries and asset management firms meet demand from certain investors, notably those who invest in Luxembourg-registered collective investment schemes. The creation of these free zones accompanying a commitment from major French banks to create jobs would boost economic activity in disadvantaged regions.

Putting an end to the anomalies of a complex and hard-to-understand tax system, ill adapted to the 21st century, can ensure a level playing field, the favourite criterion of cross-border investors. This fundamental advantage will also help develop a virtuous cycle generated by the asset management and ultimately benefit employment and the financing of pensions.

A stable, reworked fiscal and regulatory environment will give asset managers and all Paris financial centre players the means to manage French savings and attract international capital.

Solution N° 6: End all taxes specific to France

A prerequisite to the overhaul of our fiscal framework is the elimination of taxes specific to France, especially the **Financial Transaction Tax** (FTT), which will enhance our competitiveness.

Taxing collective investment scheme subscriptions or redemptions would create a competitive disadvantage for French funds. Taxing transactions in bonds and negotiable debt securities would drastically reduce the yield of bond and money market funds, making them simply uncompetitive.

Track 2: A stable and sustainable fiscal framework

- Solution N° 3: Introduce a most favoured savings taxation clause
- Solution N° 4: Abolish the payroll tax
- Solution N° 5: Create free zones for the finance industry
- Solution N° 6: End the FTT and other taxes specific to France

Track 3: An enabling ecosystem

The stability of the fiscal and regulatory environment, which is beneficial to savings professions in general, will be combined with easy-to-implement technical measures to raise the competitiveness of French funds. FROG – *French Routes and Opportunities Garden* – the working group initiated by the AFG and AMF and dedicated to the competitiveness of the French financial centre, recently unveiled a plan of action specific to the ecosystem to address two priorities: distribution circuits and fund governance.

Solution N° 7: Modernise the subscription system and develop fund .fr governance

With its 27% market share, Luxembourg dominates Europe in terms of fund domiciliation. Despite its strengths, France has lost ground in an area where it has a strong record of expertise.

Luxembourg's transfer agent model has become a reference for international fund distribution. Simpler than the French model, it centralises the entire fund registration process and has won over global investors. Its success is also due to intense marketing efforts promoting a "Luxembourg brand", especially for UCITS¹⁴.

Abroad, France's system is perceived as more complex and more cumbersome. Since the 1990s, when it was Europe's leader with 20% of market share, France has steadily lost ground in fund domiciliation. The complexity of the French settlement/delivery model discourages foreign investors, despite the Luxembourg process being costlier than ours in practice. Even if European regulatory harmonization diminishes the flexibility of the Luxembourg model, the simplicity of its subscription process remains attractive.

The recent innovations brought to the Paris financial centre, supported by the FROG working group, move it in the right direction, thanks to significant improvements enabling French asset managers to re-enter the selling process. Fund subscription and redemption methods have been updated and expanded, and complete catalogue of solutions now includes:

- a model for intermediated orders,
- the development of a commercial Transfer Agent (TA) offering by French depositories,
- direct orders to centralising agents (without going through a custody account-keeper),
- the creation of a Euronext net asset value platform (Euronext Fund Service Paris), a subscription channel accessible to UCITS and alternative funds.

⁽¹⁴⁾ *Undertakings for Collective Investment in Transferable Securities*

Every type of subscription and redemption is now available in France. Asset management professionals will receive training in these new mechanisms, facilitating the adoption of these innovations and strengthening the competitiveness of the financial centre. This catalogue of offers adapted to all international investor practices simplifies and promotes the international distribution of French investment funds.

In addition, a change in French fund governance has revitalised SICAV open-ended funds by implementing a specific measure enabling players to transform their common investment funds (French FCPs) into SICAVs and thereby better protect investor interests.

Long-term joint work by the AFG and AMF in these areas will certainly reinforce the competitiveness of the Paris financial centre and the French asset management industry overall.

The development of new technologies, especially FinTech, offers exceptional opportunities. Why not change tack and explore blockchain tools – a major innovation that the FROG group has been closely monitoring? This data storage and transmission technology could enable the traceability of transactions at a low cost and in optimal security conditions. The potential applications of blockchain technology are vast and will cut through all financial sectors.

Solution N° 8: Define a clear securitisation framework

Definition of a clear, secure framework for securitisation to enable securitized products to be marketed to all investors, including UCITS funds.

Working with other stakeholders, the AFG has come up with proposals to create loan-to-real economy funds under the insurance code. This initiative led to a modification of investment rules for insurance companies to adapt them to these new instruments.

Other proposals submitted by FROG working group, which the regulator, the French Treasury Department and other stakeholders further clarify the regime for certain transactions.

Solution N° 9: Introduce an “.eu” ISIN

Introducing the ability to use a single European code within the International Securities Identification Numbering (ISIN) system would bring a tangible improvement. The use of this “.eu” ISIN for European collective investment undertakings covered by a directive providing for free circulation would constitute a supplementary option to simplify procedures.

Track 3: An enabling ecosystem

- **Solution N° 7:** Modernise the subscription system and develop .fr fund governance
- **Solution N° 8:** Define a clear securitisation framework
- **Solution N° 9:** Introduce an “.eu” ISIN code

Track 4: Promotion

Other challenges, in addition to boosting competitiveness, are image and communication. They are key because communicating effectively on an initiative is just as important, if not more, than the initiative itself. Promotion is essential for two reasons:

- Every practical measure taken to stimulate the financial centre must be communicated in the right way, at the right time, to the right audience, so that they all become the best of ambassadors;
- France's market image has slowly but surely deteriorated in recent years, from the viewpoint of foreign investors, for whom resilience, certainty and confidence are better allies than change (real or imagined), doubt and suspicion. Our communication must dispel the negative perceptions that have developed since 2008.

With the aim to create a more welcoming ecosystem for global investors, “getting the message across” means deploying targeted, precise and frequent communications on the financial centre's strengths and the tangible measures taken to stimulate its growth. Keywords for execution are alignment, simplicity and repetition.

Reiterate our shared aims and communicate our tangible achievements with one voice

Uniting energies and keeping initiatives focussed is vital if all financial centre stakeholders are to work together to strengthen Paris's competitiveness.

Many voices have been raised to promote the strengths of the financial centre and criticize those measures that weaken it. The AFG, the Foreign Affairs Ministry (Business France), Paris Europlace, the “Place de Paris 2020” committee and many others have already spoken out to explain, promote and raise the alarm when necessary.

Intensified activity from public authorities in these past few months – notably under the impetus of the AMF and the Treasury – confirm that right now we have a window of opportunity to make a strong impression, change stakeholder perceptions and put Paris squarely and sustainably back on the radars of global investors. The AFG must assert its leadership, speak on behalf of the entire community, and bring together previously scattered efforts.

To project the voice of the Paris financial centre beyond France's borders, **the FROG working group** has already begun developing innovative communications designed to raise all parties' awareness of the need to better distribute French funds internationally.

By **publishing a collection of proposed tangible measures** to (further) facilitate the domiciliation of French and foreign funds in France, FROG is sending a strong message and should be a foundation stone in rebuilding the image of the Paris financial centre.

Winning the battle of simplicity

A good message is a simple message that is easy to understand. It must be easy to communicate consistently and bring immediate, tangible benefits to those who hear it. Luxembourg, a frequent example, has been particularly effective in merging its business practices and communications with simplicity, resulting in the success we are all familiar with.

Solution N° 10: Appoint a French asset management ambassador

Changing the perceptions of savers and investors and communicating the strengths of the French model and its new orientations call for **a new assertive communication approach**. The mission of the “FROG Communication” technical committee is to dispel preconceived ideas and develop a long-term approach to communications from the Paris financial centre.

Too many players, at times with divergent or even conflicting interests, as well as a plethora of published reports have weakened the messages conveyed by the Paris financial centre. Once again, AMF’s leadership must select which battles to fight. By first choosing simple, targeted messages on subjects with a good chance of success, the group dedicated to reinforcing the competitiveness of the Paris financial centre is maximising its chances of triggering a positive momentum and getting all players on board, both in actions and in words.

Our streamlined message should have a streamlined form: for FROG, for example, a simple stamp – a visual of an easily recognizable frog, registered by the AFG – enables it to identify all its initiatives without detracting from the key message.

A French asset management ambassador promoting sustainable mobilisation

The AFG is the natural spokesperson for the French financial industry. As such, it is the AFG’s role to steer communications on asset management with the aim to promote the Paris financial centre.

The recently created permanent position of French asset management ambassador should ease interactions with both national and international parties. The primary mission of this Ambassador is to create a **“France brand”**, like the “Luxembourg brand”, notably for UCITS. The purpose of this umbrella brand will be to promote the strengths of the French ecosystem, which include exceptionally strong legal security, reinforced investor protection, a unique pool of skilled professionals and lower management fees.

Among the priorities assigned to this French asset management ambassador, an urgent need is to develop economic diplomacy with clearly identified markets and countries to promote the excellence of French asset management internationally.

An effectiveness indicator for Paris financial centre initiatives?

A *“FROG Record”* survey will provide a quantitative and regular measurement of the growth of French financial management exports and the attractiveness of the Paris financial centre in terms of fund domiciliation. This indicator of the effectiveness of the financial centre’s initiatives will enable the corrective adjustments to be made and increase responsiveness.

Track 4: Promotion

→ **Solution N° 10:** A French asset management ambassador promoting sustainable communication

APPENDIX

10 TANGIBLE SOLUTIONS

Track 1: Long term savings and diversified wealth in France

- Solution N° 1: Create a personal pension savings product
- Solution N° 2: Ease Solvency II constraints

Track 2: A stable, sustainable fiscal framework

- Solution N° 3: Introduce a most favoured savings taxation clause
- Solution N° 4: Abolish the payroll tax
- Solution N° 5: Create free zones for the finance industry
- Solution N° 6: End the FTT and other specific taxes

Track 3: An enabling ecosystem

- Solution N° 7: Modernise the subscription system and develop fund .fr governance
- Solution N° 8: Define a clear securitization framework
- Solution N° 9: Introduce an “.eu” ISIN

Piste 4 : promotion

- Solution N° 10: Appoint a French asset management ambassador for sustainable communication



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