

AFEG'S RESPONSE CONSULTATION

New CMU action plan

Roadmap

4 August 2020



The Association Française de la Gestion financière (AFG) represents and promotes the interests of third-party portfolio management professionals. It brings together all asset management players from the discretionary and collective portfolio management segments. These companies manage at end 2019 more than €4,000 billions in assets, i.e. a quarter of continental Europe's assets under management.

The AFG's remit:

- Representing the business, financial and corporate interests of members, the entities that they manage (collective investment schemes) and their customers. As a talking partner of the public authorities of France and the European Union, the AFG makes an active contribution to new regulations,
- Informing and supporting its members; the AFG provides members with support on legal, tax, accounting and technical matters,
- Leading debate and discussion within the industry on rules of conduct, the protection and economic role of investment, corporate governance, investor representation, performance measurement, changes in management techniques, research, training, etc.
- Promoting the French asset management industry to investors, issuers, politicians and the media in France and abroad. The AFG represents the French industry – a world leader – in European and international bodies. AFG is of course an active member of the European Fund and Asset Management Association (EFAMA), of PensionsEurope and of the International Investment Funds Association (IIFA).

41 rue de la Bienfaisance - 75008 Paris - Tél. +33 (0)1 44 94 94 00
45 rue de Trèves - 1040 Bruxelles - Tél. +32 (0)2 486 02 90
www.afg.asso.fr - @AFG_France

Interest representative register number: 5975679180-97



New CMU Action Plan : views from the French asset management industry

AFG feedback

CMU will be key in EU recovery post-COVID as well as in promoting EU competitiveness in a post-Brexit context.

The HLF report CMU makes proposals that our industry fully supports:

- Improving investor information
- Centralising issuers' data in an EU single access point
- Creating a European Consolidated Tape (CT)
- Lightening the MiFID II unbundling rules to foster investment in SMEs
- Reviewing the ELTIF framework
- Strengthening ESMA's role
- Strengthening investor education

The ELTIF review must address the supply and the demand-side, tax barriers and obstacles to attracting retail investors: lowering the entry ticket to EUR 10k, lowering the ratio of long-term assets to 50% and allowing investment in funds of funds.

Strengthening ESMA's role must improve convergence between NCAs and use of new tools (eg no-action letters). In a post-Brexit context, everyone would benefit from as limited as possible divergences between NCAs when it comes to EU law implementation and how business is treated on that basis. However, direct ESMA powers over day-to-day business (eg fund authorisation, on-site inspections), already well carried out by NCAs, would not add any value.

Improving investor information requires further postponing the application of the PRIIPs Regulation to UCITS products, until the PRIIPs KID is properly assessed and adjusted.

Nevertheless, the HLF report missed some key aspects that will determine whether CMU will succeed or not.

The CT should go together with rethinking the role of market data providers, their relative market power and pricing practices, especially in the context of the ESG agenda. CT's success will depend on the data quality & costs that will determine its usefulness for end-investors. CT for equity instruments should be the first step – other asset classes should be considered over time. For market transparency, we recommend further regulating data providers with horizontal rules – because various market participants face the same issues with market data/ESG data/index providers (eg inflation in access to data, lack of transparency on cost justification or setting; limitation of provider liability). This is due to the fact that asset managers face the same oligopoly of data providers, which are in a position to impose their fees as well as legal responsibility limitations. This is part of a concern for mastering the information and their quality

used by asset managers and communicated to investors, and also a better control of the access costs to data which affect the performance obtained for the investors' account.

Promoting employee shareholding plans and collective workplace savings for cross-border firms will also be key for building CMU. These vehicles enable employees to participate in and benefit from the long-term growth of the firm. They are an incentive for employees and they help stabilise firms' equity capital. A mutually-recognized model for employee share ownership would:

- Provide for clear and transparent schemes
- Allow local schemes to co-exist with a voluntary EU framework
- Facilitate multi-country offers that reach more employees
- Provide an optional simple framework for incentives
- Spread wealth more widely, leading to more broad-based prosperity
- Offer the security and transparency associated with a modern regulatory framework and operation by regulated entities

An investment fund structure has unique advantages vs direct share ownership:

- Based on the European UCITS and AIFM Directives
- Liquidity mechanism, particularly useful for non-listed companies. Share ownership in unlisted shares is facilitated by creating a common valuation method that provides for the repurchase of shares according to a protocol ensuring transparency and objectivity
- Risk management is also ensured, as the collective structure allows for the full range of market tools to manage risks in the interest of employee shareowner (eg guarantees can be structured to eliminate concentration risk)

* *
*