EFAMA
European Fund and Asset Management Association

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Investment Management Forum 2022 – Introductory speech by EFAMA President, Naïm Abou-Jaoudé

Good afternoon to all of you and a warm welcome to this 28th edition of the EFAMA Investment Management Forum! After 2 years of organising this event online, it is a real pleasure to see so many of you in the room today and to be able to reconnect in person. I am looking forward to what will be 2 days of fruitful discussions around a number of themes that are central for a well-functioning fund and asset management sector and to the benefit of investors and society.

On behalf of the EFAMA team, we are proud to present you once again with a first-class line-up of speakers and a diverse program which, we hope, will spark your interest and inspire you! I would like to thank our loyal sponsors, Arendt, Candriam, PwC and Simmons & Simmons for their much appreciated support and BNP Paribas Fortis for giving us access to this beautiful venue!

Before giving the floor to our first distinguished speaker of the day, Commissioner McGuinness, allow me to briefly set the scene with a few general observations. First, regarding the macro-economic outlook. We are going through a period of exceptional risks and uncertainties. As we were just emerging from the Covid-19 pandemic, Russia's invasion of Ukraine plunged Europe into another crisis with dramatic consequences. Dramatic consequences, first and foremost for the population of Ukraine but also, more recently, for many people across Europe who suffer from financial difficulties as a result of steep increases in energy prices. Financial markets have also reacted negatively to the war and its disastrous effects, in particular, inflation and interest rates. This has depressed not only global stock markets but also bond market prices. This is very unusual as usually, bond funds have offered protection to investors during periods of market turmoil.

In this environment, markets seem to be on course this year to deliver one of their worst performances on record. This means that many investors will suffer a drop in the overall value of their investments. However, we should not lose sight of the following fact: Over the last ten years, including the fall in stock markets so far this year, the return of UCITS equity funds net of fees reached 6.5% in real terms, that is after inflation. Whereas the value of bank deposits fell by 14% in real terms over the same period. So, the loss of value suffered by financial markets this year does not cancel the rationale for further developing the Capital Markets Union and encouraging European households to diversify their savings towards capital market instruments.

Let me also underline that the stress we have experienced in stock and bond markets has not created panic among investors: net sales of UCITS equity funds totaled EUR 30bn as of end of August, which represented less than 0.4% of the UCITS equity fund assets. Net outflows from bonds during the same period were stronger: EUR 107bn. But this amount was smaller than the net outflows observed in March 2020 alone (EUR 156bn). In addition, fund managers had no difficulty in dealing with those outflows thanks to effective liquidity management procedures and tools to ensure that they can meet redemption requests. The current crisis – once again – shows that investment funds are not a significant source of systemic risk.

Against this pretty dark geopolitical and economic background, and given the challenges that Europe currently faces, it is more important than ever to achieve progress towards a Capital Markets Union that works for people and that helps finance the sustainable and digital transition. Here, I would like to applaud Commissioner McGuinness and the Commission Services for their determination in moving this ambitious project forward and for achieving substantial progress in many areas. This is notably the case in the sectoral legislation in our industry. We were very pleased with the provisional agreement recently reached on the ELTIF Review. The revised framework offers a clear opportunity to make ELTIF a product of choice for the retail audience and to reach its full potential. The removal of the entry ticket will simplify the conditions under which retail investors can safely access ELTIF products thanks to the mandatory suitability assessment test. At the same time, the revised rules will also promote portfolio diversification, broaden the scope of the eligible asset universe and strengthen ELTIF's liquidity profile.

Likewise, we welcome the progress made on the targeted review of the AIFMD/UCITS Directive. The existing rules have supported a decade of growth in the European market and proven resilient despite unprecedented challenges we are facing. The framework will be strengthened with a broader and more harmonised range of tools available across EU countries to manage funds liquidity, enabling asset managers to react in a swift and tailored manner to future challenges. Swing pricing, for instance, proved to be a very effective tool at the start of the Covid-19 crisis, incentivising investors to remain invested in funds while protecting investors' holdings against dilution by externalising the costs of redemption. More recently, following the Russian invasion of Ukraine, some regulators (e.g. Lux, Ireland, UK and ESMA guidance) widened the ability for UCITS funds to use side pockets where their assets became hard to value or untradable. As we will discuss in a dedicated panel tomorrow, this review also has great potential to facilitate growth and recovery in the European economy. Key improvements to facilitate the origination of loans will provide a critical source of financing to the real economy, in particular to enable a green future. It is imperative that these rules are carefully calibrated so as not to have the opposite effect and discourage this important source of funding. The co-legislators have worked hard to maintain a balanced and practical approach and we look forward to the delivery of the revised Directive next year.

Sustainable finance is another area where the EU has clearly taken the lead on the global stage. This degree of political commitment deserves recognition and our industry fully embraces the opportunity to play a pivotal role in the transition towards a greener, more sustainable economy. We have come a long way already. Asset managers are now offering a wide range of sustainable products and strategies for all types of clients, whose demand for ESG keeps increasing. Nevertheless, as with all new regulatory frameworks, there are challenges to be solved as the industry adapts to the new rules. Especially, when the focus is shifting from high-level targets to the truly tricky work — implementation. The most significant issue for our sector has been a lack of consistent and reliable corporate ESG data, which is on its way but will not be accessible for some years, despite the imminent adoption of the CSRD by the co-legislators. While the implementation hurdles are hard to overcome, we believe that Europe is on the right path and its position as a leader in global sustainable finance is clear. We remain committed to delivering the low-carbon transition and we will continue to play our part. But we need continued political will. Governments should be bold in ambition but focused on implementation. Going forward, we need to ensure that new changes to the regime are brought in with plenty of time to allow the financial sector to adequately prepare.

Last but not least, we note intensifying discussions around the type of due diligence rules that EU companies must follow. Most recently it was around the Corporate Sustainability Due Diligence Directive (CSDDD) or the Deforestation Regulation. These are important societal debates asset managers should be part of. However, we are worried that those discussions often fail to fully take into consideration the nature of the investor-investee relationship, its limitations, and how it differs from companies' supply chains in the real economy. Asset managers should definitely play their part – and already do so, notably through active engagement with issuers. It is essential, however, to ensure that new regulatory requirements under CSDDD or other regulations are compatible with the existing sustainable finance framework and does not create more legal uncertainties or confusing overlaps.

Another necessary condition to the success of the CMU is to increase retail participation in capital markets. We hope that the Retail Investment Strategy, that the European Commission is going to publish early next year, will play a positive role in achieving this goal while, at the same time, preserving high standards of investor protection. However, new initiatives will only be truly successful if they are built on the needs and preferences of EU citizens. As shown by a recent Eurobarometer survey, the number 1 source of information for EU Investors is qualified financial advice. It is therefore key not to restrict investors' access to financial advice by preserving both the fee- and commission-based models and by enforcing the existing safeguards against biased advice. On the other hand, we must protect citizens from financial influencers offering unregulated advice on social media. In addition, the Retail Investment Strategy offers an excellent opportunity to provide clearer information to investors through harmonised digital disclosures. To sum up, building on the good regulation that's already there, we advocate for removing complexity, capitalising on the digital age, ensuring access to qualified advice and protecting citizens against unregulated products and advice. All of this will pave the way for growing retail participation in capital markets.

The Retail Investment Strategy is also crucial given the increasing retirement savings gap in many European countries. To raise awareness of this issue, EFAMA took the initiative of reaching out to Insurance Europe and Pensions Europe to launch the European Retirement Week. The 2nd edition will take place at the end of this month, with the participation of 14 European Associations concerned with the pension sustainability and adequacy gap. We are extremely pleased that Commissioner McGuinness has accepted to give a keynote speech during this year's edition, which will be held in person on Monday 28 November. The event will also include a conversation about the pension challenges with the Chair of EIOPA, Petra Hielkema. Looking forward, we hope that the European Retirement Week will become part of the official EU calendar.

Of course, any assessment of progress toward a Capital Markets Union would not be complete without considering the consolidated tape. Market participants, have consistently called for a real-time consolidated tape for bonds and equities. This call is now louder and more urgent than before given the competitive pressures we face to both attract global fund flows, and prevent EU capital from going abroad. We hope that the current MiFID review will deliver this basic and much-needed piece of infrastructure to support liquid and efficient markets. This is one of the issues that will be discussed in the market data panel later this afternoon.

Let me conclude by saying this: the asset management industry strongly supports the efforts of the European Commission towards building a truly effective Capital Markets Union that works for people and the economy. Good progress has been made already but a lot remains to be done and asset managers stand ready in helping EU policymakers achieving that noble and necessary ambition. In this process, it is essential to preserve the competitiveness of EU players on the global stage. In the current market environment, asset managers are faced with strong pressure on costs and a sharp decrease in their revenues, not to mention the very significant burden of complying with new regulations. Policymakers should not overlook that reality if we want to have vibrant and diverse capital markets in Europe. This is why the recent announcement by President Von der Leyen that the European Commission would introduce a standard competitiveness-check in EU regulation is much welcome. Together with a stricter application of 'Better Regulation' and proportionality principles, these are absolutely essential considerations to ensure that the European economy continues to thrive in an ever more challenging world.

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Notes to editors

About the Investment Management Forum:

The Investment Management Forum is EFAMA's flagship event, bringing together industry leaders, investors and policymakers to discuss topics of common interest and importance. Now in its 28th edition, this year's event will be a unique opportunity to present the state of European investment management industry and how it can contribute to the sustainable finance, CMU and post-Covid recovery objective of the EU. The conference starts on Thursday, 17 November (lunchtime) and runs until Friday, 18 November (lunchtime), with a programme featuring keynote speeches, an exclusive CEO panel, panel sessions and presentations.

You can find more info here: https://efama.eu/

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EFAMA

ABOUT EFAMA

EFAMA is the voice of the European investment management industry, which manages over EUR 30 trillion of assets on behalf of its clients in Europe and around the world. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors.

Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities. EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book.

More information is available at www.efama.org