THE INVESTMENT ASSOCIATION

MAKING INVESTING BETTER FOR ALL

A MORE MODERN, RESILIENT, AND SUSTAINABLE EUROPE

October 2023

ABOUT THE INVESTMENT ASSOCIATION

The Investment Association (IA) champions the interests of the UK-based investment management industry. We represent over 250 firms, a third of which are headquartered in the EU and operate from 642 offices across Europe.

Our members put €9.9trn to work across the economy, representing 35% of the estimated total €28.4trn of assets managed in Europe. IA members manage €2.7 trillion on behalf of European clients and invested €820 billion into EU businesses and projects needing capital, all while providing European clients access to global investment opportunities.

For more about the IA, please see **www.theia.org**, contact our team at **europe@theia.org**, or visit us at **44 Avenue des Arts, Brussels**.

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FOREWORD

Chris Cummings, Chief Executive.

AT THE IA, OUR PURPOSE IS TO MAKE INVESTING BETTER: BETTER FOR SAVERS WANTING TO ACHIEVE THEIR FINANCIAL GOALS, BETTER FOR COMPANIES AND PROJECTS SEARCHING FOR CAPITAL, AND BETTER AT HARNESSING TECHNOLOGY TO DELIVER NEW INVESTMENT OPPORTUNITIES FOR ALL.

Today, IA members manage €2.7 trillion for European clients and have invested €820 billion into EU businesses and projects needing capital. Our members have more than 2,100 funds domiciled in the EU, and they serve millions of individuals in every Member State from 642 offices across Europe.

The interconnectedness between the UK and the EU is both broad and deep. Given the relative size and influence of each other's markets on the global stage, it's important to recall that targeted cooperation between the UK and the EU has helped Europe's financial system prove its resilience against a range of unprecedented events over the course of the past five years.

Yet amidst continued geopolitical and environmental uncertainty, a clear vision for the future is more vital than ever. Critically, while the investment management industry held up well during sustained periods of stress caused by the economic effects of COVID and the War in Ukraine, and important lessons have been learned, challenges remain in realising the true potential of Europe's capital markets.

As we look forward to starting a new mandate, we set out our vision for overcoming some of these challenges. Leveraging our members' extensive experience and deep technical knowledge, we identify five thematic areas that we believe should be a priority for the upcoming Presidency and the Commission beyond elections in June 2024.

Put simply, our vision is one where Europe's citizens are empowered to make investment decisions right for their own circumstances. It is one where the true potential of sustainable investment is unlocked. And it is one where Europe's open and efficient markets help capital flow to projects and business in need of finance – all supported by the greater use of innovative and new technologies, products, and means of communication.

We are ready to play our part in helping to realise this vision and in delivering better outcomes for the millions of European citizens who rely on us for their financial futures. As an industry, we are committed to supporting the development of a modern, resilient, and sustainable Europe. We look forward to continuing that discussion with our central purpose in mind – making investing better for all.

Chris Cummings
Chief Executive

IA MEMBERS MANAGE
€2.7 TRILLION
FOR EUROPEAN CLIENTS

BY THE NUMBERS

Number of IA Members:

250 Full members

82 Affiliate Members

48 Sector Members

150 Fintech Members

Number of European offices members operate in: **642**

Total European AUM: **€28.4trn**

Assets managed by IA members:

€9.9trn

Of which managed in the UK for EU clients:

€2.7trn

40% of this is segregated mandates including from:

- Netherlands €463bn
- Switzerland €122bn
- Sweden €138bn
- Germany €134bn
- Italy €72bn
- France €39bn

Amount of money invested in European equities by our members:

€820bn

Funds domiciled in Europe by our members:

2,104

Value of UK retail investment into European domiciled funds:

€230bn

Number of people employed by the industry:

Source: IA Investment Management Survey 2022 and the EFAMA Factbook 2023

OUR VISION:
A MODERN, RESILIENT, AND SUSTAINABLE EUROPE

The IA's members play a central role in the functioning of the modern European economy. In response to the wishes of their clients, they help direct capital to where it is needed most, fostering growth, and delivering financial returns for individuals and institutions alike.

They also provide millions of European citizens the means to invest for their retirement or save for other financial goals by offering different funds, strategies, and products to respond to their specific needs.

Our members also support job creation, innovation, and infrastructure development across the EU by financing businesses and projects needing capital. Additionally, our members' risk diversification capabilities help contribute to the overall stability of the EU's financial system.

Meeting the needs of the end investor – along with the key goals of supporting sustainable growth, the digital transition, and a well-functioning and resilient capital market – are central to everything we do. We stand ready to support Europe in achieving its goals. Here, we set out our vision for making investing better for all.

1. PLACE THE INDIVIDUAL AT THE CENTRE:

Increasing retail investor participation in European markets is key to building a successful and modern European economy. While considerable progress has been made to increase engagement under the Capital Markets Union Action Plan, some individuals may still not feel empowered to engage with their finances or make investment decisions that meet their financial aspirations and circumstances.

We believe the following actions could make a real difference in engaging and empowering individuals:

- **Redefine value for money:** We urge the EU to shift the focus of the Retail Investment Strategy (RIS) from benchmarking monetary costs to a more holistic definition of value. A broader Assessment of Value process will promote vibrancy, innovation, and adaptability within a dynamic, customer-focused financial market. This approach, underpinned by strong governance and accountability, will influence market behaviour while maintaining cost considerations as an important but not dominating factor in defining customer value.
- **Reframing Disclosure:** Disclosure should be meaningful and engaging for retail investors. The EU should review MiFID, IDD, and PRIIPs and design a principles-based future disclosure framework which puts the individual at the centre and allows firms to innovate and adapt communications to best suit their customers.
- **Coordinating support for financial literacy and education programmes:** Welcome industry-led initiatives and promote public-private partnerships between Member States and industry to increase standards and levels of investor engagement across the EU.
- **Tackling income in retirement:** To tackle long-term challenges regarding adequacy and affordability of income in retirement the EU should promote Member States' introduction of pension dashboards and consider the introduction of auto-enrolment programmes.

2. IMPROVE ACCESS TO SUSTAINABLE INVESTMENT OPPORTUNITIES:

The EU leads the world on sustainable finance. The regulatory framework developed over the past mandate remains largely fit for purpose. However, operational complexities for those conducting cross-border activity into the EU, and difficulties in meeting clients' often diverse and unique investment preferences, provide areas for improvement in the next mandate. We recommend this includes:

➜ **Prioritising the review of the Sustainable Finance Disclosure Regulations (SFDR).** We welcome the early commencement of a review into SFDR. We call on the EU to ensure proper coordination and sequencing between the Commission's review and the work already being undertaken by ESMA, for example on fund names and greenwashing risks across the EU.

➜ **Recognising the unique relationship between an investment manager and an investee company.** Utilise existing sectoral rules to reduce duplicative burdens imposed on firms and provide better legal clarity to entities operating into, and within, the EU.

➜ **Leveraging Europe's leadership role to ensure alignment of reporting approaches between investment managers and issuers.** Provide sufficient flexibility to allow, for example, the distribution of products from markets that have also adopted the ISSB standards, ensuring disclosures from entities in these markets can be easily incorporated into decision-making processes.

➜ **Supporting the development of coherent and consistent net zero transition plans.** Work to promote credible pathways for financing the brown-to-green transition with international partners.

3. SUPPORT INNOVATION IN TECHNOLOGY:

Embracing technological advancements enhances operational efficiency and fosters greater accessibility and inclusivity in financial services. Our industry can offer further tailored and cost-effective services by developing innovative solutions such as digital payment platforms, robo-advisors, and blockchain applications.

Moreover, technology-driven solutions can help significantly improve risk management, fraud prevention, and regulatory compliance in the industry, contributing to a more resilient and responsive European financial ecosystem. To achieve this, we suggest:

➜ **Promoting initiatives like the Framework for Financial Data Access (FIDA).** Streamline data sharing between market participants and develop tools to provide investors with a unified view of their individual portfolios.

➜ **Laying the foundation for the tokenisation of funds.** Open new avenues for innovation and investment in European investment funds such as UCITS and AIFs, focused on leveraging the benefits of tokenisation.

➜ **Conducting a comprehensive review of the eligibility of native digital assets within EU funds.** Allow for further portfolio diversification by permitting the inclusion of new and emerging asset classes, especially of a digital nature.

➜ **Enhancing efficiency between supervisory authorities and global financial centres by increasing reliance on AI.** Examine how this technology can better support supervisory activities and monitoring practices in the modern era, recognising the global nature of investment management.

4. ADVANCE OPEN AND EFFICIENT MARKETS:

Open and efficient capital markets are essential drivers of economic growth and stability. These foster innovation, entrepreneurship, and job creation by providing a platform for businesses to access funding and investors to allocate resources.

Additionally, such markets allow for efficient price discovery, ensuring assets are valued accurately, which aids in resource allocation. In this context, we recommend:

- **Identifying barriers to the cross-border distribution of funds.** Streamline the at times duplicative application requirements of Member States' National Private Placement Regimes with a view to 'switching on' the third country AIFMD passport in due course.
- **Promoting greater alignment between MiFIR, EMIR, SFTR transaction reporting and global equivalent regimes.** Complete the analysis of when and how the EU should move to a shorter settlement cycle to align with key global markets, such as the US' T+1 settlement cycle.
- **Review and tackle the quality, availability, and increasing costs of market data.** Continue to champion the development of European Consolidated Tape and commit to address the quality and high overall data costs, including, if necessary, through regulation.
- **Utilising the EU's global leadership position to improve comparability between market standards.** Facilitate international trade with other markets based on a 'level playing field'.

5. ENCOURAGE INTERNATIONAL, CROSS-BORDER COOPERATION:

As home to one of the world's major financial centres, the EU has an important leadership role in supporting our industry. By sharing good practices, harmonising standards, and coordinating regulatory frameworks, international cooperation can help the EU mitigate risks associated with future financial crises and ensure a level playing field for market participants. We recommend:

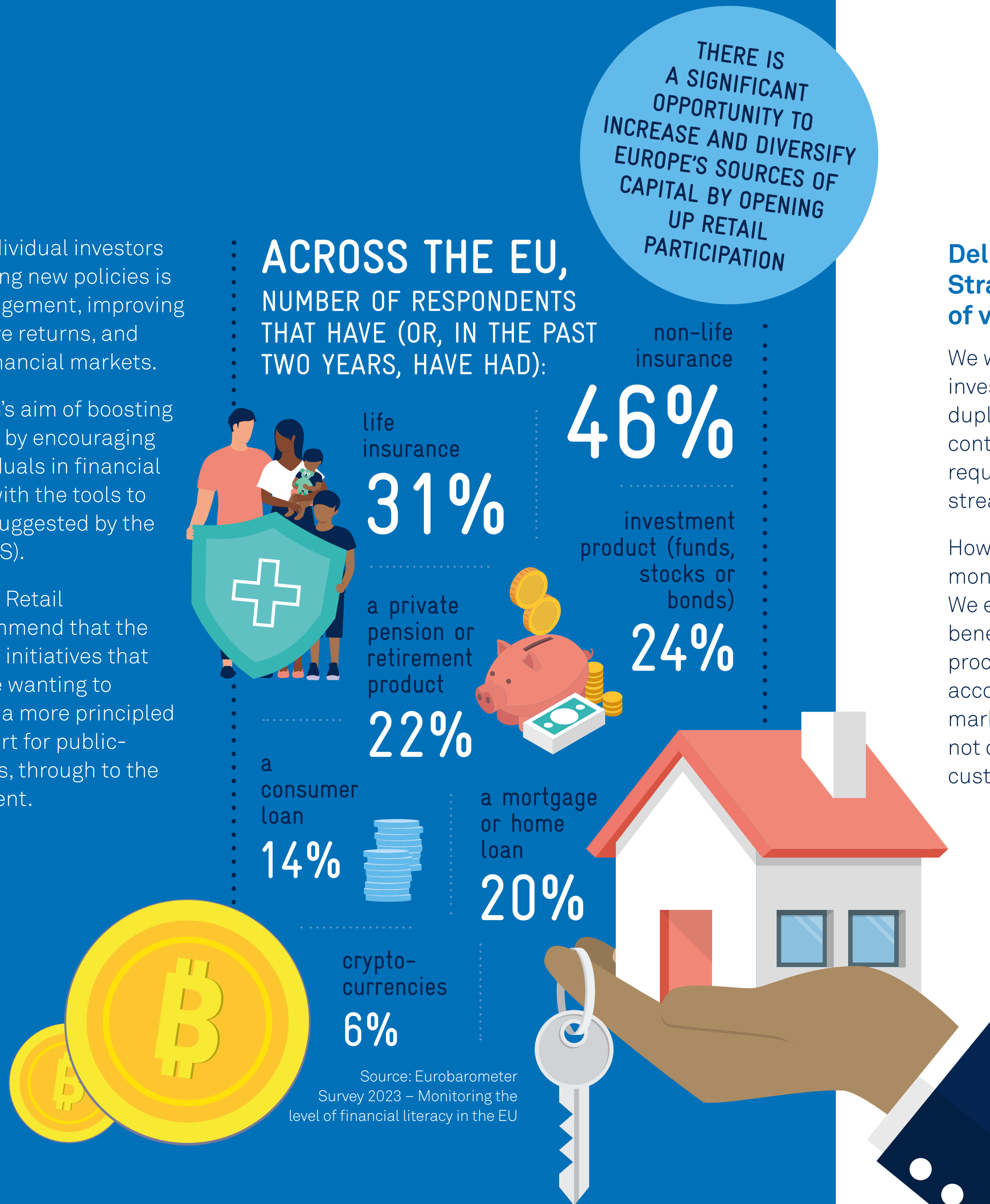
- **Prioritising international cooperation relating to the risks posed by non-bank financial institutions.** Ensure policy responses are properly calibrated and proportionate to the evidence and challenge to overall financial stability.
- **Operationalising the UK/EU Joint Forum as an opportunity for a meaningful and forward-focused dialogue.** Rebuild trust and facilitate the flow of ideas through close engagement with the UK government and with the industry.
- **Collaborating early with key financial centres where common challenges demand a common solution.** Build upon recent work on sanctions policy, taxation policy, financial crime, and anti-money laundering with other third countries like the UK, Switzerland, and the US.
- **Promoting supervisory convergence at all levels.** Ensure alignment to existing international standards such as those promoted by IOSCO and FSB on fund liquidity and a framework for supervising crypto assets. Work with international partners to facilitate the flow of capital in accordance with agreed global standards.

1. PLACE THE INDIVIDUAL AT THE CENTRE:

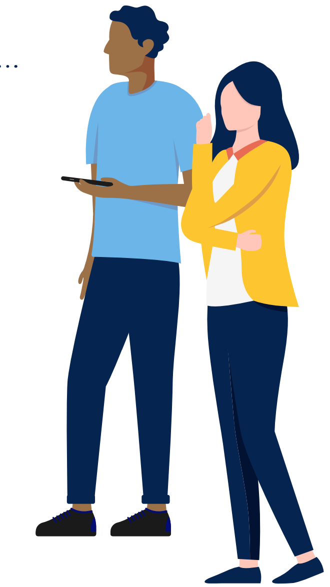
Ensuring that the needs of individual investors are considered when developing new policies is essential to encouraging engagement, improving confidence, facilitating positive returns, and maintaining the integrity of financial markets.

The IA shares the Commission's aim of boosting Europe's low investment rates by encouraging greater engagement by individuals in financial services and providing them with the tools to make informed decisions as suggested by the Retail Investment Strategy (RIS).

Beyond delivering an effective Retail Investment Strategy, we recommend that the Commission consider broader initiatives that will also help empower people wanting to invest. This includes adopting a more principled approach to disclosure, support for public-private education programmes, through to the consideration of auto-enrolment.



Source: Eurobarometer Survey 2023 – Monitoring the level of financial literacy in the EU



Deliver an effective Retail Investment Strategy that recognises the full range of value to an investor:

We welcome initiatives in the RIS to align investor disclosure obligations to avoid duplicative disclosures, and the efforts contained within the strategy to shift disclosure requirements to be 'digital by default', helping streamline access for all.

However, the focus on benchmarking monetary costs over holistic value is misplaced. We encourage the EU to consider further the benefits of a broader assessment of value process that uses strong governance and accountability mechanisms to influence market behaviour, with cost an important but not dominant consideration in the definition of customer value.

It is important not to overshadow the value of prudent investing or the fundamental role investments play in helping European citizens achieve their financial aspirations. However, the RIS' sole focus on price regulation might hinder the vibrancy, innovation, and adaptability characterising a resilient European financial market.

We also have concerns about the potential distortions such an approach could impose on the European fund industry and capital allocation throughout the EU's economy. Focusing solely on cost does not recognise the complex nature of investing in longer-term assets, nor the additional factors involved in distributing such products compared with tracker or index funds.

A new approach to disclosures:

While much has been made of the benefits of improved transparency to individual investors, this does not always mean that customers understand what is provided to them. Clear and comprehensible disclosures foster trust, encourage market efficiency, and contribute to a more accountable and responsible financial ecosystem, benefiting investors and the market's overall stability.

We urge the Commission to review MiFID, IDD, and PRIIPs together and design a customer-centric, principles-based disclosure framework based on the following principles: customer-centric communication, proportionate and consistent disclosure, standardisation of key metrics such as risk and costs. Any future framework should place a greater emphasis on the use of technology to support communication; firms should be able to communicate in the way they see fit for a customer rather than a prescriptive durable medium.

If the Commission is minded to reform disclosure, we favour the inclusion of past performance. Performance disclosure aims to inform investors about an investment's historical performance, acknowledging its value while cautioning against overemphasising it.

Support evidence-based policy-making:

Financial markets are dynamic, and investor needs are diverse and evolving. Regulations should be flexible enough to adapt to changing circumstances and new innovations in technology and products. We urge the Commission to be mindful of the impact that imposing overly burdensome requirements on firms could have in stifling innovation and competition within the industry.

The Commission should consider how new policies introduced to improve the investor experience may instead be a barrier to participation, considering already high levels of investor protections embedded in EU law. Consistent with the EU's Better Regulation Principles, removing unnecessary or duplicative disclosures would benefit investors and firms alike.

Coordinate support for financial education initiatives between Member States and promote the use of public-private initiatives:

The EU should expand support for financial education and literacy programs by implementing a comprehensive approach that involves collaboration among Member States, educational institutions, financial regulators, and industry stakeholders. By allocating resources in a more coordinated manner to develop standardised and accessible educational materials across the EU, the EU could ensure that citizens can access and then engage with reliable information about financial concepts, products, and strategies.

Promoting public-private partnerships focused on investor education could also facilitate the creation of interactive platforms, workshops, and seminars that cater to various demographic groups, enhancing financial knowledge and skills across the EU. That's why the IA promotes financial education and literacy through IOSCO's World Investor Week, EFAMA's Retirement Week, or our Just Finance Foundation partnership.

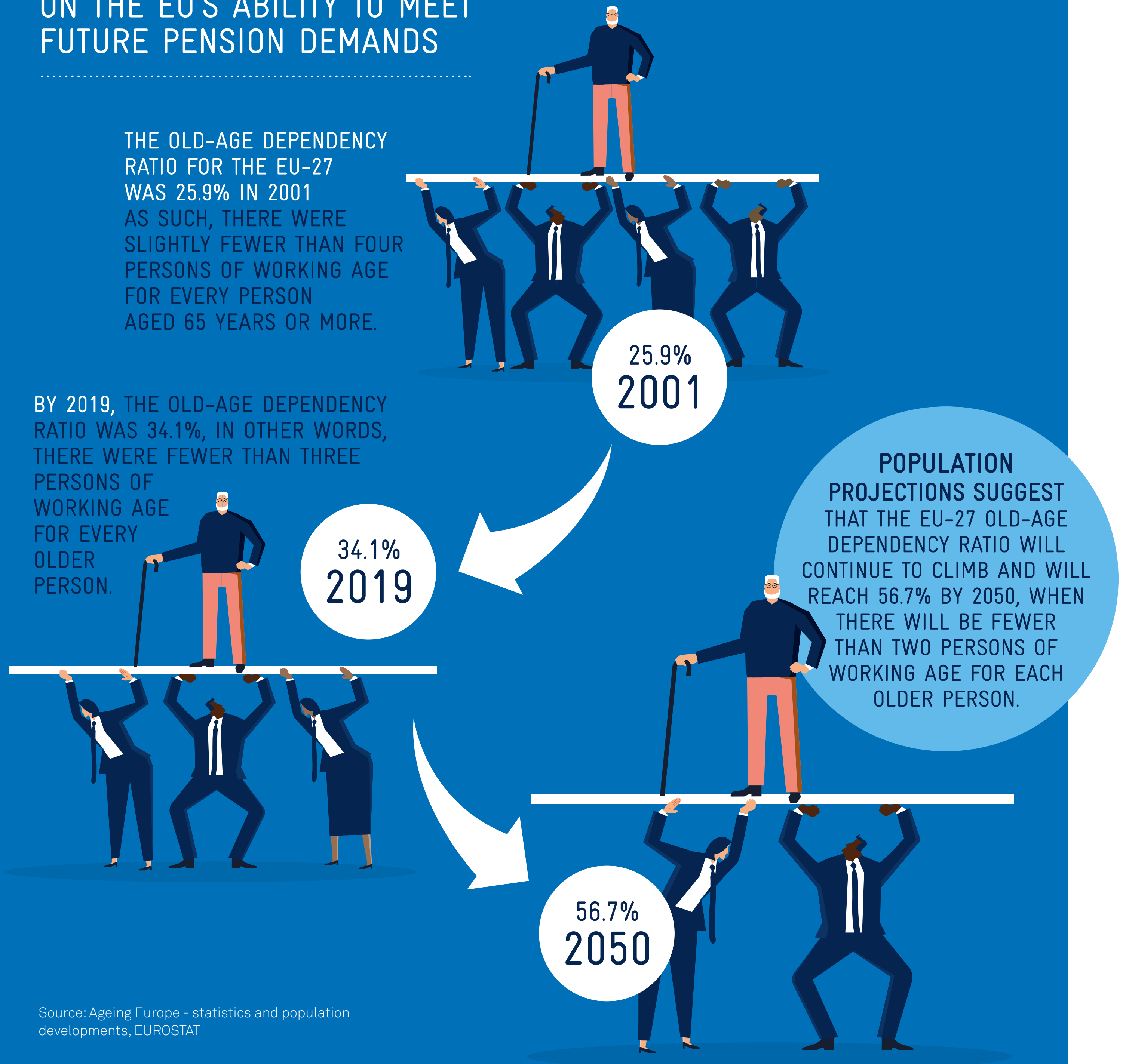
Robust investor protection is not possible without effective investor education, and while improving levels of financial literacy is necessary, this alone is unlikely to be sufficient.

IT IS IMPORTANT NOT TO OVERSHADOW THE VALUE OF PRUDENT INVESTING OR THE FUNDAMENTAL ROLE INVESTMENTS PLAY IN HELPING EUROPEAN CITIZENS ACHIEVE THEIR FINANCIAL ASPIRATIONS.

Integrating financial literacy into school curricula, vocational training, and adult education programs through a coordinated approach could also foster a culture of informed financial decision-making from an early age.

Financial education alone isn't the only option. In the UK, initiatives like the IA's joint programme with the government on 'dormant assets' have helped to reunite thousands of past investors with lost funds. Such initiatives can help people build confidence in financial markets, and in turn improve the levels of engagement over the longer term.

AN AGEING POPULATION WILL PLACE INCREASED PRESSURE ON THE EU'S ABILITY TO MEET FUTURE PENSION DEMANDS



Source: Ageing Europe - statistics and population developments, EUROSTAT

Tackle the long-term question of pension adequacy:

Against the backdrop of an ageing population, improving savings rates and promoting greater investment in people's retirements will help ensure that this segment of the European population will have financial security in later life. Taking action now will also help reduce the future burden likely to be placed on state-provided pensions in future years, alongside growing social welfare commitments for EU Member States.

Auto-enrolment for pensions is one strategy adopted by various countries to address the challenge of low savings rates. The EU could consider this approach as part of a broader strategy to boost savings rates and ensure future financial security for its citizens, particularly into retirement years. While the full-scale introduction of auto-enrolment would likely necessitate treaty change, the Commission can play a leadership role in promoting the development of such programmes within Member States.

Increased Participation Rates:

Auto-enrolment can significantly increase pension participation rates, as seen in countries like the UK, where auto-enrolment has led to a rise in pension savers. In the UK auto-enrolment has more than doubled private pension participation from 42 per cent in 2012 to 86 per cent in 2021 (as a percentage of the working population).

Overcoming Inertia:

Most Europeans feel 'not too confident' (32%) or 'not confident at all' (22%) that they will have enough money to retire comfortably. Auto-enrolment can help overcome this inertia by automatically enrolling eligible workers into pension schemes.

Source. Eurobarometer Survey 2023, monitoring the level of financial literacy in the EU

Make a success of the Pan-European Pension Product:

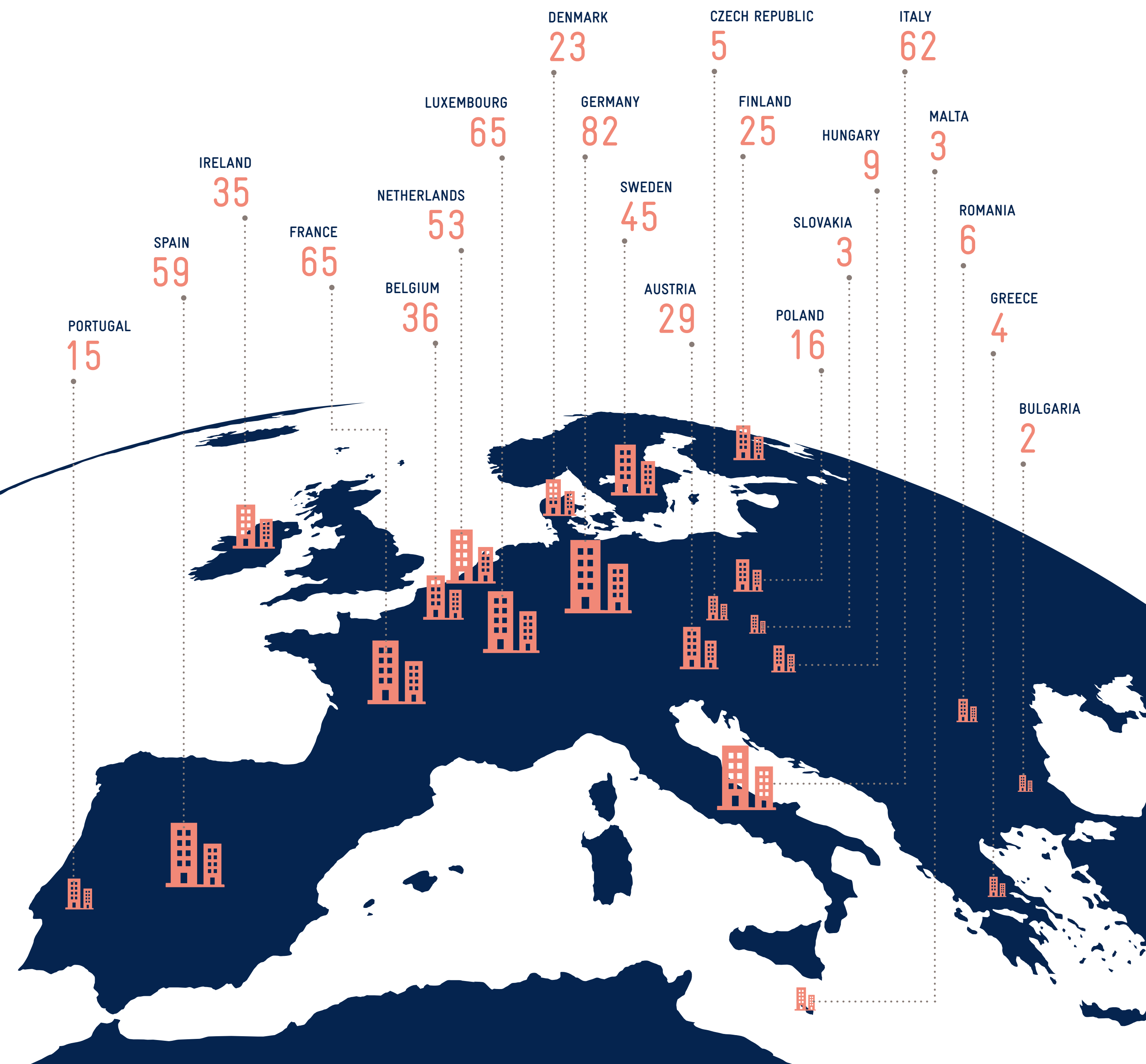
The Pan-European Personal Pension (PEPP) could function as a vehicle for employers to fulfil potential auto-enrolment obligations at the national level. We strongly urge the Commission to evaluate this before the comprehensive PEPP review in 2027, going beyond current efforts to align PEPP's tax treatment with domestic pension vehicles.

Moreover, an earlier review should address regulatory elements hindering the PEPP's success today. The requirement for personalised financial advice, accompanied by a fee cap of 1% covering all costs except guarantees, creates significant barriers to entry, particularly for investment managers. A pragmatic solution could involve excluding advice costs from the fee cap, enhancing the PEPP's commercial viability.

Additionally, we recommend considering whether full financial advice is essential for products like the Basic PEPP, designed to feature a default investment option. A default option aims to offer a cost-effective, broadly suitable solution that can be safely marketed without advice. Implementing such changes could further enhance the PEPP's commercial feasibility, increasing its potential adoption across the EU.

NUMBER OF IA MEMBER OFFICES IN EUROPE:

Source: IA analysis of member data



2. IMPROVE ACCESS TO SUSTAINABLE INVESTMENT OPPORTUNITIES:

Improving access to responsible and sustainable investment opportunities is important for driving long-term, holistic growth and ensuring European investors can contribute to the planet's environmental well-being. As an industry, we support the goals of the European Green Deal.

The EU is well positioned to use its 'first mover' advantage on sustainability to secure its long-term commercial attractiveness, increasing its market share for related products, services, and technologies, and attracting global investments and talent.

Importantly, the EU already has an established regulatory framework and taxonomy to promote sustainable investment. Reviewing the effectiveness of these and considering the proper sequencing of new initiatives will enable capital to be better channelled towards enterprises and projects that tackle global challenges such as climate change, resource scarcity, and social inequality.

To energise the private finance needed to deliver green growth in the European economy, it is necessary to foster dialogue between private finance and all Member States to ensure the regulatory framework supports the orderly transition and sustains economic growth.

Equally, it will be important to collectively assess the investment needed, track public and private financial flows across the European economy towards the net zero objective, and develop comprehensive and strategic financing plans to close the gaps between required and actual financial flows.

OVER Q2 OF 2023, ASSETS IN ARTICLE 8 AND 9 FUNDS **ROSE BY 1.4%** AND FOR THE FIRST TIME PASSED THE **€5 TRILLION** MILESTONE. ABOUT 180 FUNDS UPGRADED TO ARTICLE 8 FROM ARTICLE 6, WHILE ONLY SIX DOWNGRADED TO ARTICLE 8 FROM ARTICLE 9.

Source: Morningstar

ANNUAL INVESTMENT GAP OF €620-700 BILLION – FOR THE EU TO ACHIEVE ITS CLIMATE GOALS MORE SOURCES OF CAPITAL ARE NEEDED.

€620-700 BILLION

(this figure fluctuates between 620-700 billion euros depending on the official rates used)

BANKS ALONE CANNOT SUPPORT THE GREEN TRANSITION

CURRENTLY, EU CORPORATIONS DEPEND ON BANKS FOR **70%** OF THEIR FINANCING MEANWHILE IN THE USA IT IS ONLY 30%.

Source: 2023 European Strategic Foresight Report

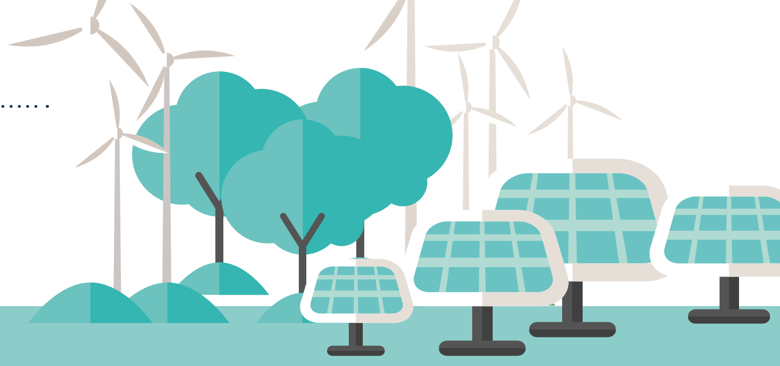
Promote a coherent and consistent regulatory environment for climate-related and sustainability disclosures:

The investment management industry is committed to bringing clarity, transparency, and consistency to how we describe and deliver sustainable and responsible investment products to clients. Regulation should support and enable the industry to deliver on this commitment, recognising the important role that the industry has in facilitating the financing of the climate transition.

Future work on the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy Regulation, carbon market regulation, and disclosure and reporting should all prioritise international consistency. European leadership is needed here, noting that globally comparable disclosures will be more decision-useful to investors, and standardised definitions of sustainability terminology will help reduce the risk of greenwashing.

The aims of SFDR – requiring investment managers to explain how they are approaching sustainability topics and goals in their products – must result in the individual investor being able to understand and assess the credibility of those claims. Sustainable disclosure is valuable, but multiple layers of information do not always lead to greater comprehension. Therefore, further regulatory changes should be rigorously tested, focusing on an individual's level of understanding.

Furthermore, a key requirement of sustainable investment strategies is access to high-quality ESG data and ratings. ESG data and ratings providers therefore play an essential role, supplying information and services that are material to investment decisions. As such, a regulatory framework for both ESG data and rating providers, in line with IOSCO Recommendations, is essential to secure the quality and reliability of the outputs and help reduce risks of greenwashing.



THE EU REPRESENTS **6.9%** OF GREENHOUSE GAS EMISSIONS AND AROUND **9%** OF THE WORLD POPULATION

Source: The 2023 European Strategic Foresight Report

Global buy-in and cooperation will be key to address the challenges posed by climate change and managing the flow of capital to where it's needed most.

Support the creation of credible, comparable, and decision-useful corporate net zero transition plans:

Europe has a crucial role to play in the global transition to net zero, and the European Green Deal and Net Zero Industry Act are positive steps towards achieving this.

The Commission should seek to give businesses operating in the EU confidence that cooperation on the net zero transition is compatible with local law. The Commission should also use international platforms to argue for similar clarity in other leading economies.

For example, the Transition Plan Taskforce (TPT), initiated by the UK Government, is developing a 'gold standard' framework for entities' net zero transition plans which could inform a similar model in the EU. The International Sustainability Standards Board (ISSB) is also working to ensure consistency across standards, including those of the TPT, to reduce fragmentation in global sustainability requirements, which provides further opportunities for the EU to demonstrate global leadership.

Continue to champion global financial standard setters:

The IA welcomes the recognition of the ISSB as a global baseline for sustainability-related reporting. The recent endorsement of IFRS S1 and S2 by IOSCO was an important development in this respect. Globally harmonised sustainability reporting will help investors make well-informed investment and stewardship decisions, especially as they increasingly incorporate a wide range of material sustainability issues into their assessments of long-term value from investee companies.

However, these standards need to be adopted at the local level to provide a truly global baseline. We therefore welcomed the recent ISSB/EFRAG announcement on alignment between initiatives such as CSRD and the ISSB, and we would encourage further progress on the interoperability between the IFRS and the EU reporting standards. For those operating in non EU jurisdictions, alignment with the ISSB standards should be the basis for meeting the new CSRD requirements.

3. SUPPORT INNOVATION IN TECHNOLOGY:

The digitalisation of the investment management industry has been underway for several years, although the increase in Artificial Intelligence (AI) and other similar software is a more recent phenomenon. Support for innovation and new technology in the industry could bring significant long-term benefits in operational efficiency and lower-cost products.

While the EU has made considerable progress with introducing initiatives such as MICA and the Pilot programme encouraging the take up of blockchain, balancing the adoption of new technology with high standards of conduct and good governance must remain a priority. Striking the appropriate balance between encouraging responsible innovation and avoiding poor practices should be a key focus for the next mandate.

Leverage technology for innovative products:

We recognise that recent events such as the collapse of FTX have focused attention on the levels of governance and the need for high standards of conduct in a rapidly evolving part of the financial ecosystem. This should rightly be the starting point in any discussion about new technology and its use in financial services.

Source: Eurobarometer survey

However, there is a clear danger that innovation in AI, distributed ledger technology and digital assets technology could be stifled by an over-focus on potential risks. These technologies mitigate risks to the financial system by improving information availability, reducing transaction times, and enabling secondary transactions in less liquid assets.

Conduct a review of eligibility criteria for native digital assets:

One such area ready for innovation is for the Commission to lay the framework to allow for the tokenisation of funds. In addition, the Commission could also consider the eligibility of native digital assets with fund structures, allowing for further diversification in portfolios by managers. The Commission should also consider plans for digitising other processes relevant to the efficient functioning of the industry, including disclosures, KYC, AML and payments.

Conduct a review of eligibility criteria for native digital assets:

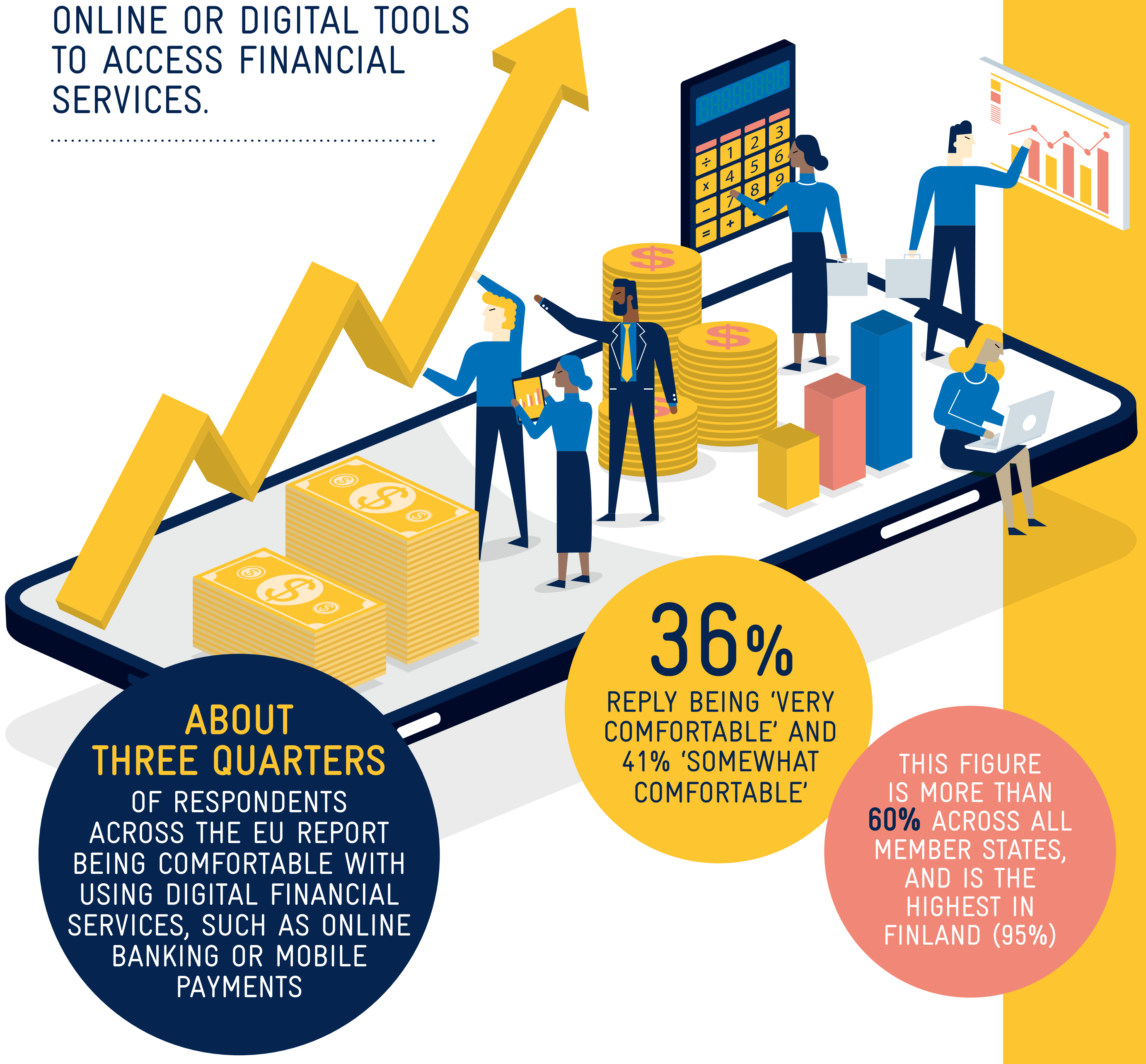
A clear policy and regulatory approach will be key to navigating the uncertainty around the future of the native digital assets environment, with approaches likely to differ depending on the type of asset being considered.

The Commission should consider establishing regulated routes for native digital asset exposure in some cases. However, we urge caution around creating any additional laws that risk becoming redundant or hindering innovation.

Consider the use of AI in supervisory practices:

The greater use of technology, particularly AI, holds substantial promise for enhancing the supervision of financial services. Supervisory bodies are already taking important steps in improving their oversight and risk management mechanisms by harnessing AI's analytical capabilities. The Commission could work with authorities in Member States to better identify how AI-powered algorithms could more swiftly analyse vast amounts of financial data, detect anomalies, and identify potential irregularities or emerging risks that might not be easily detected through traditional methods.

THERE IS STRONG SUPPORT BY INVESTORS FOR GREATER USE OF ONLINE OR DIGITAL TOOLS TO ACCESS FINANCIAL SERVICES.



Source: Eurobarometer Survey 2023 - Monitoring the level of financial literacy in the EU

A more proactive approach led by the Commission could enable supervisors to make further informed decisions and take timely actions to prevent financial misconduct, market manipulation, and systemic vulnerabilities at an EU -wide level, further encouraging the developing of the pan-European Capital Market.

Greater use of AI could help streamline compliance processes by automating routine tasks, allowing human regulators in smaller Member States to focus on complex, high-value tasks such as strategic policy formulation and the assessment of novel risks brought about by evolving financial technologies, improving the overall level of supervision across the EU.

AI-driven surveillance systems could help authorities operate around the clock, constantly monitoring market activities for unusual patterns or deviations, improving the resilience of the market. This continuous monitoring would enhance detection speed and reduce the chances of overseeing gaps due to manual limitations caused by a system reliant on individual Member State authorities. AI algorithms could also adapt and learn from historical data, becoming increasingly effective in identifying new and sophisticated forms of financial fraud and market abuses.

Leverage the digital euro for wholesale use cases:

The digital euro holds immense significance in a modern European economy, catalysing financial innovation and inclusivity. By providing a secure and accessible digital form of the official currency, it enhances convenience and efficiency in transactions, fostering seamless online and offline payments.

This digital evolution can empower individuals with greater financial access, especially when digital transactions are prevalent. The digital euro could also bolster the EU's position in the global digital economy, promoting economic resilience and competitiveness. It modernises traditional payment systems and opens doors to innovative financial products and services, driving economic growth and adaptability in an increasingly digitalised world.

However, the wholesale uses of central bank digital currency should not be overlooked in the design process for a retail digital euro. Institutions must increasingly have access to central bank assets for more secure and reliable settlement purposes. The efficient exchange of a digital euro for other digital currencies will be vital in enabling a global market for digital money.

4. ADVANCE OPEN AND EFFICIENT CAPITAL MARKETS:

A resilient and sustainable global economy relies on promoting deep and liquid capital markets. Market fragmentation and instability are a major threat to mobilising investment within the wider financial ecosystem.

To mitigate this, the Commission should promote efforts designed to improve the level of cross-border activity, support the global alignment of standards, tackle the rising cost of market data, consider new and innovative sources of financing for SMEs, and ensure tax policies support the long-term competitiveness of the European industry.

Promote cross-border activity and access to diverse investment products:

Europe is one of the world's largest investment management markets, with UCITS funds a central pillar upon which the industry has grown in recent years. Yet, as recognised by the CMU Action Plan, barriers remain in the distribution and marketing of funds in Europe, reducing investor choice.

The UCITS Directive does not permit the cross-border distribution of non-EU funds to retail consumers. However, enabling the third-country passport for key markets under AIFMD would increase choice and competition by providing a more streamlined route into the European market.

As a starting point, we recommend that the Commission work with Member States on streamlining the various and often complex entry requirements for their National Private Placement Regimes and for the marketing of non-EU funds to non-retail consumers.

Establish globally consistent market standards:

The Commission can lead the way, working closely with IOSCO, to reduce fragmentation and drive comparability between international market standards for the benefit of capital markets in Europe and beyond. Greater alignment, for example, on reporting regimes contained within MiFIR, EMIR, SFTR and equivalent regimes internationally is encouraged to improve the depth and efficiency of capital markets, especially considering the impact these requirements have on larger firms operating across separate jurisdictions from the EU.

One area where global standards are constantly evolving is settlement cycles, and we recommend that the Commission collaborate with international partners to harmonise settlement cycles where possible to ensure capital can be moved to where it is most needed as frictionless as possible. We welcome efforts to remove barriers to the adoption of a shorter settlement cycle in the EU, as well as those to align these cycles at an international level.

Review and tackle the increasing costs of market data:

Market data is essential in helping market participants identify and evaluate investment opportunities. Current high prices mean access to data is limited, leading to less informed investment decisions, and increased costs ultimately being passed on to the end investor.

If data costs continue to rise across the EU, this will harm companies' ability to access capital markets, negatively impacting the end investor and the real economy. We welcome the efforts by the Commission and ESMA to address high data costs and improve competition between providers.

Efforts should now focus on the delivery of an effective Consolidated Data Tape that covers equities, fixed income and ETFs and serves all market participants – thus further minimising costs to the end investor in the form of a centralised option for pricing and data.

Tax-related initiatives should be comprehensively assessed against other European Directives:

Our increasingly connected global system enables individuals to more freely move money across borders, and for corporations to transact with their affiliates across global supply chains. This is a key feature of an efficient and effective market which brings benefits across the whole European economy.

Tax is often a key determining factor in investment decisions and the Commission should strive for better tax coordination, and reduce double taxation, by conducting a comprehensive analysis of each tax initiative's impact on other Union policies to ensure Europe remains globally competitive.

This should include identifying a list of duplicative tax policies, quantifying their positive and negative impacts, and outlining their potential damage to investment vehicles such as UCITS and AIFs as well as their investors, or managers. This data will enable the Commission to provide the industry with an early understanding of new initiatives' likely impact, while avoiding harmful double treatment practices.

5. ENCOURAGE INTERNATIONAL, CROSS-BORDER COOPERATION:

In a world where global financial markets are intricately interconnected, collaborative approaches between financial centres can help harmonise regulations, prevent regulatory arbitrage, address cross-border challenges, and ensure a swift collective response managing crises and fighting financial crime.

A fair, efficient, and transparent global economy relies on deeper relationships between international policymakers. Inputting into the formation of global standards and ensuring alignment with them allows the Commission to promote the development of more consistent regulatory and supervisory approaches leading to better results for individuals and the wider economy.

Global financial stability is in the interest of both individuals and the wider economy and to achieve this, cooperation across jurisdictions will remain essential when considering the impact of potentially diverging decisions being taken at a domestic level. Consideration will also need to be given to ensuring supervisory convergence at the EU and international levels and enhanced data sharing among policymakers based on already extensive regulatory reporting.

Address global risks to financial stability in a coordinated, proportionate manner:

At the international level, a disproportionate level of attention remains focused on how open-ended funds may represent a systemic risk to market stability. This debate needs to take account of the unique nature of open-ended funds and the evidence of how such funds operated under periods of stress. Consideration of financial stability risks must take account of the entire integrated ecosystem to fully understand causes and consequences.

During the March 2020 period, the evidence clearly showed that within Europe no Money Market Fund (MMF) was unable to meet their redemption requests and, importantly, that the regulation functioned as intended. We welcome recognition of this fact by the Commission in its most recent report published in July 2023. Should the Commission seek to review the EU MMF Regulations in the next mandate, we would support a targeted review focused on decoupling the liquidity thresholds identified by the Commission in its report.

Normalise the UK/EU relationship through the Joint Forum:

Now that the MOU on financial services has been signed between the UK and the EU, the priority should be operationalising the Joint Forum on Regulatory Cooperation. The Forum provides a valuable and unique opportunity for a meaningful and forward-focused exchange between the UK and the EU, centered on resolving common challenges.

Recommended agenda topics:

- Financial stability and the role of market-based finance.
- Sustainability and the greening of the economy.
- Fund regulation and cross-border distribution issues.
- Innovating to improve investor outcomes.

We encourage both the UK and EU authorities to ensure close engagement with the industry ahead of each Joint Forum to ensure the policy issues discussed align with the needs of the industry, and benefits from the expertise of the industry to achieve the most effective results.

We also urge the UK and EU to fulfil their obligations in the MOU to provide a debrief to the industry post-Forum. Specifically, we would welcome the introduction of an 'investment management college' between the FCA and ESMA to facilitate dialogue on issues specifically relevant to our sector.

Promote policies that foster cross-border business:

Policies should encourage, rather than impede, cross-border investment. The Commission has over recent years conducted extensive work to remove barriers to distribution within the EU, although equivalence determinations remain an issue of core concern for those wanting to conduct business into the EU.

Internationally minded policies will assist the Commission in maintaining international competitiveness for the EU as an investment destination. Preservation of international norms, including the ability to delegate portfolio management functions, is essential to the success and long-term competitiveness of the European fund industry and to preserving good outcomes for investors and investee companies.

Recognising the importance of the UK both as a market for EU funds, as well as a global portfolio management centre, we recommend the UK and the EU continue to cooperate on introducing the UK's Overseas Funds Regime to provide a streamlined route for EU funds into the UK market.

Beyond this, we encourage the UK and the EU to continue discussions on equivalence determinations where it is in the mutual interest of both sides, specifically on settlement and trading activity. Doing so will help facilitate trade in services, as well as provide a more certain legal basis for the provision of these core services.

Fight financial crime and money laundering:

Crime knows no boundaries, and criminals often target individuals in other jurisdictions. There is copious evidence that criminals operate across borders to decrease the risk of being detected, pursued, or prosecuted. They rely on national law enforcement being unable to share information, intelligence, and manpower across borders as easily.

Given the life-changing impact that financial fraud can have on investors, it is important that efforts, such as Europol and its financial intelligence public-private partnership programme are supported. Cooperation and information sharing between law enforcement and regulators across borders as well as between public and private sector should be further enhanced.

Pursue an ambitious trade policy:

The EU is one of the most outward-oriented economies in the world, with free trade among its members being a founding principle. The EU should continue with its ambitious approach to world trade using the full range of economic and political agreements and its membership of international bodies such as the World Trade Organization (WTO).

Trade in services, including data, is crucial to future European growth. The EU's economic diplomacy should support the contribution made by financial and related professional services firms, and the key role played by the investment management industry.

EU agreements should ensure:

- There are dedicated financial services chapters in Free Trade Agreements with commitments to regulatory dialogues and the provision for relevant future mutual recognition arrangements.
- The term "investment" used in trade agreements has the broadest definition, recognising that investment forms constantly evolve.
- Measures are in place to remove forced localisation policies, compulsory local procurement, equity caps on foreign ownership, caps placed on investment in foreign markets and forced local ownership practices.
- Regulators receive appropriate data compatible with the freedom of data-movement and data-processing measures.
- Any provisions for prudential carve-outs have procedures in place to reduce the likelihood of them being used to unfairly restrict choices made by European or international investors.

HOW WE CAN HELP

The IA offers a range of training, roundtables, and events focused on leading investment management issues. We also have more than 80 policy experts who are ready to help accross funds regulation, capital markets, stewardship and corporate governance, and trade and investment, along with our statistics and insights division.

If you have any questions regarding the content in this document, or wish to speak to our team, please contact us on: **Europe@theia.org**

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