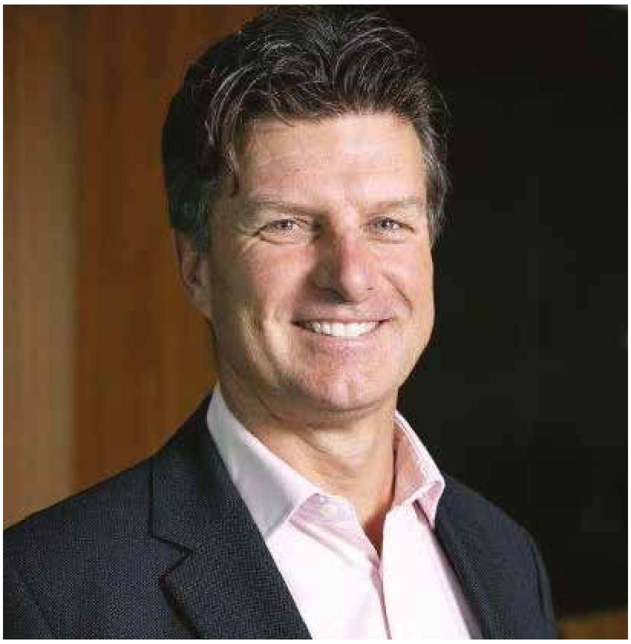

Q&A

PATRICK THOMSON

Chief Executive Officer, EMEA -
JPMorgan Asset Management

Increase investor confidence and regulatory consistency to further the CMU

What are the main on-going trends in the asset management sector and what role is it playing in the overall development of EU capital markets? How can regulation effectively support these evolutions?

The asset management sector is a crucial component of both European and global capital markets, with a number of EU countries ranked amongst the top ten largest fund domiciles in the world. As providers of investment products and services and allocators of long-term capital, the sector plays a key role in enabling economic growth and generating returns for the investing public. Therefore a clear and consistent regulatory framework, which provides predictability for all market participants, will be essential to help ensure the sector can continue performing this role and facilitate further development of the European capital markets more broadly.

Regulatory predictability is particularly important in light of the highly uncertain macroeconomic environment we are navigating. As policymakers tackle the various headwinds, volatility in the markets will continue. While this heightens the importance of effective risk management, it may also present opportunities for investors.

Looking forward, the growth of ETFs is likely to continue. The popularity of ETFs has increased exponentially, due to their operational and cost efficiency. Active ETFs, while still in their infancy as a market segment in the EU, are increasingly attracting investor attention.

As part of the sector's ongoing evolution, we believe there remains potential for significant consolidation in the sector, as asset managers seek scale and portfolio diversification to offer better investment returns. Furthermore, we expect to see the continued prominence of sustainable investing, which has been a key determinant of investor flows in Europe over the last couple of years.

Is the CMU agenda moving in the right direction? What are the key issues to address for the future stages of the CMU?

JPMorgan Asset Management is a strong proponent of the Capital Markets Union (CMU) agenda and its overarching objectives. The CMU is an ambitious project with great potential, and we commend policymakers for the steady progress made to date. We believe that creating stronger and deeper European capital markets will help support the real economy, reduce reliance on bank lending, and create more long-term wealth for European citizens.

We need concerted effort by policymakers to achieve the best outcomes for investors and EU economies. If effectively calibrated, initiatives under the CMU umbrella could be instrumental to this end. Still, moving away from a bank-dominated model has been a slow process despite the continued growth of the asset management sector since the idea of the CMU was conceived more than 10 years ago. Thanks to a well-calibrated and bespoke regime, both EU and non-EU financial services firms have been able to provide services cross-border, thereby bringing new competition, choice and investment to European markets. However, to further improve the operating environment, it is important that the EU focuses on maintaining its openness and seeking opportunities to improve the competitiveness of its capital markets.

As policymakers further the CMU, they should consider how to reduce frictions affecting cross-border flows, both intra-EU and between the EU and the rest of the world.

What are the key drivers for developing retail investor participation in the EU and how should they be addressed in the upcoming Retail Investment Strategy?

To activate the EU's full investment potential, we need to reach out to citizens and support their engagement with their financial future. EU citizens would benefit from greater access to the long-term returns that investing brings, helping them achieve lifetime goals while at the same time providing greater growth capital for the economy.

There is no silver bullet to achieving greater retail investor participation. Rather, a comprehensive package of policies is required that promotes financial education and financial advice, investor choice, and transparency.

Moreover, financial literacy should also be a key area of focus. Gaining a better understanding of investing increases accessibility, engagement and builds confidence, particularly for first-time investors. We need to provide the millions of people we serve across the EU with clear, simple and easily digestible information, and in a digital way. It is also imperative that we provide appropriate, tailored support according to the different needs of the investing public and the different stages of an individual's life. Considering the varying degrees of financial literacy across the EU, we need to ensure that policy encourages a more effective financial advice regime which enables investors to make informed decisions on whether and how to invest or not, thereby increasing trust in capital markets. Investor protection should also remain front and centre of the Strategy.

Regarding distribution, we would urge policymakers to take a balanced and considered approach which seeks to ensure the consistent application of rules across different distribution channels and product types. When considering value, we must also recognize that there will be different costs associated with different levels of service, and that a focus on costs exclusively may not result in optimal outcomes for end investors.

There is a strong correlation between healthy retail investor participation and deeper, more liquid capital markets. Therefore, we urge policymakers to propose an ambitious and positive vision for the Retail Investment Strategy.

Do existing EU investment product frameworks cover the main needs of retail investors and what improvements can be expected from the amendments of the AIFMD and ELTIF reviews?

A key element to fostering greater retail participation is to ensure that EU citizens have access to a wide range of suitable investment opportunities. This will be highly dependent on a regulatory framework that promotes open and competitive capital markets, whilst ensuring strong investor protection.
This has already been observed in the case of UCITS, which is widely acknowledged as the international gold standard – a retail product which has democratized saving and turned Europe into the global destination of choice for funds. We welcome the recognition of this by EU policymakers in the review of the AIFMD and UCITS frameworks, and the importance of preserving the well-calibrated regime that has underpinned this European success story. We also welcome the proposed harmonization of the availability of liquidity management tools across the EU, which we believe will directly contribute to improving financial stability.

With regards to ELTIFs, we were impressed with the ambitious approach taken by European policymakers. We are optimistic that the revised rules, which address some of the challenges in the original framework without compromising investor protection, could mean more meaningful consideration is given to this product by retail investors.

Can labels bring clarification to the sustainable investment universe? Are additional regulatory requirements needed to develop sustainable investment?

The sustainable investment landscape continues to evolve rapidly. With the exceptional investor demand for products in this area showing no sign of abating, the heightened regulatory scrutiny is understandable, to ensure the products investors choose are aligned with their expectations. In this context, we believe it has become more important than ever that investors receive jargon-free and simple communication to help them make informed decisions.

We believe the EU's existing comprehensive regulatory framework, which has been developed and introduced over a short period of time, already enables EU regulators to effectively oversee a firm's practices closely. Should there be an emerging view that this is not sufficient, we would encourage policymakers to ensure the existing set of rules are applied consistently and any potential areas of ambiguity or uncertainty be addressed.

Indeed a dedicated a labelling regime could be another way to address some of these challenges and we believe there is merit in this being considered further by the EU. Should this be taken forward, we would encourage – in so far as possible and is appropriate – global consistency. Providers are increasingly making product decisions with international considerations in mind. However, fragmented regimes across jurisdictions risk increasing costs and reducing scale, ultimately having a negative impact on access and choice for investors.

At this stage, we would caution against any wholesale revision or the introduction of substantive new regulatory requirements, which we believe would be premature, could be highly disruptive for the industry, and would introduce further complexity for investors.