

# Asset management and the SIU

## 1. Asset management trends and opportunities

### 1.1 Trends of the EU asset management sector

A regulator observed that the asset management industry in Europe has shown growth in recent years in terms of assets under management and the number of market participants. There is a growing trend towards passive investment and exchange-traded-funds (ETFs), due to their cost-efficiency and simplicity, which the European asset management industry should take advantage of. More EU-based ETFs should be developed, particularly in the area of listed SMEs supported by benchmarks adapted to these firms.

An industry representative stated that despite significant volatility in financial markets recently, the European asset management market is attractive to international investors due to its stable and predictable policy framework. ETFs are experiencing strong success, and active ETFs are a particularly promising area of the market.

Another industry representative observed that the ETF sector illustrates the opportunities of the asset management sector. With approximately \$2.4 trillion of assets invested in European ETFs, \$500 billion of which has been invested in the last three years, these funds have contributed to democratising investment by offering the same product, performance and pricing across all investor types, from institutional to retail investors in a transparent way.

### 1.2 Role of asset management in the SIU

An industry representative welcomed the Commission's focus on savings and investments with the SIU initiative, as investment is essential to European competitiveness and growth. Asset managers are committed to helping European savers participate more actively in capital markets.

Another industry representative shared the importance for the European economy of promoting long-term savings and investor participation in capital markets and agreed that asset managers can play a key role in developing European capital markets, facilitating investor market access and ensuring that savers' money is appropriately invested. As professional investors in the market, asset managers can play an important countercyclical role, particularly during periods of volatility, buying undersold and underappreciated assets. They also help investors stay engaged in the market and avoid emotional reactions to short-term market downturns.

A regulator agreed that asset managers are a key enabler of the SIU, as they can contribute to effectively channelling savings into productive and strategic investments.

## 2. Main challenges

An industry representative highlighted that four key investment gaps need to be addressed in Europe. These are: a pension gap; a capital markets gap, as a significant share of household savings, estimated at €10 trillion, is held in bank and savings accounts; an investment gap, particularly in relation to the financing needs of the green and digital transitions as well as defence; and a financial culture gap, with many investors lacking the confidence to engage in capital markets.

The other panellists emphasised the challenges faced by the European asset management industry in terms of fragmentation.

A regulator observed that the industry could improve its efficiency and performance. The scale of the industry needs to be increased; while 60% of assets are held by European firms, the sector is fragmented with many small players, especially compared to the US. Greater consolidation would reduce costs, increase competitiveness, and enable European asset managers to offer investors a broader range of products, as well as allowing them to focus more on specific sectors such as SMEs, and European digitalisation and sustainability projects.

An industry representative stated that the fragmentation of the European regulatory framework and the frequency of regulatory changes are further challenges that the industry is facing. While regulatory changes can be necessary and beneficial to investors, the costs that they incur must be taken into account. These are direct costs of adapting to new rules, but also opportunity costs, as they may divert resources from efforts to innovate and improve efficiency.

A regulator further detailed the challenges posed by the regulatory framework in terms of complexity and fragmentation. The legal framework is complex due to layered legislation over time, including the UCITS and AIFMD directives, and various product-specific regulations. This complexity leads to unclear provisions and divergent interpretations, notably regarding eligible UCITS assets. In addition, rules need to be further harmonised, especially in areas outside the harmonised EU framework such as fee structures and the legal form required for funds investing in illiquid assets. National approaches differ in those areas, hindering integration. There are also divergent supervisory approaches stemming from these national approaches, which limit the scalability and cross-border development of larger management companies. Tax fragmentation is a further issue that must be addressed, otherwise efforts to further integrate the asset management sector as part of the SIU initiative will remain incomplete.

An industry representative agreed that further supervisory convergence and a more harmonised regulatory framework would be beneficial at the EU

level, as it would allow management companies to increase their scale, become more competitive and offer investors optimised pricing. Ideally there should also be greater harmonisation at the international level, but progress is unlikely in the short to medium term, given the current geopolitical climate.

### 3. Policy priorities

#### 3.1 Review of EU fund frameworks

An industry representative emphasised that the UCITS framework is globally recognised as the gold standard and provides a solid base for developing additional investment vehicles, such as active ETFs and ELTIFs. It is important not to unnecessarily overhaul well functioning frameworks like UCITS, or to rush to conclusions about newer products such as ELTIFs, which require time to gain market acceptance and maturity. Continued innovation, particularly in alternative investment areas, is vital to foster growth and competitiveness. ELTIFs are a promising new vehicle, not only for investors but also from a societal perspective, as they are designed to support long term investments in infrastructure, real estate and innovative businesses. Such a dedicated vehicle is needed for illiquid assets that cannot be included in UCITS funds.

Through future policy work, regulators should ensure that regulations are clear and simple, and that the consequences of regulation are well thought through to anticipate potential unintended consequences, the industry speaker stressed. It is important to learn from past experiences in this regard, for example, efforts in the UK to change the provision of financial advice, which have resulted in the undesirable outcome that a significant proportion of the population in the UK currently receives no financial advice and keeps most of their money in cash savings. This may not be in their best financial interests in the long-term.

Another industry representative added that preserving stable, clear and predictable regulatory frameworks is essential. Rather than introducing new retail investment products, as was suggested in some Capital Markets Union (CMU) reports, the focus should be on making better use of existing frameworks. The UCITS directive is recognised as a global success and the AIFMD and ELTIF regimes already offer a broad range of investment opportunities to meet investor demand supported by a robust and well designed framework.

A regulator observed that while UCITS is an outstanding success at the international level, some other asset management products launched in Europe have not achieved the same traction. It is expected that the reviews of the ELTIF, AIFMD, and UCITS frameworks will yield positive outcomes, although time will be needed for them to take full effect. These reviews introduce two important novelties: a stronger focus on directing funding to SMEs, and the provision of more effective liquidity management tools, which is relevant in current market circumstances.

Further improvements to the existing frameworks could be considered, the regulator suggested. First, the asset

management regulatory framework could be further streamlined into a simpler, more unified and consistent rulebook, which would close existing gaps and limit national discretion. This includes better aligning the UCITS and AIFMD directives. Secondly, a harmonised regime could be established for alternative investment fund (AIF) products in addition to AIF management companies. Thirdly, the review of the UCITS eligible assets directive could be an opportunity to create a less complex sub-category of UCITS products that would be more widely accessible to retail investors and possibly subject to lighter advice requirements, thereby encouraging a wider transfer of savings into investment products.

An industry representative underlined the importance of maintaining and protecting the UCITS brand, along with clear disclosure and product simplification. However, even well-designed, transparent products such as UCITS can experience significant volatility, which is why investors must have access to advice to better understand the context of the markets and the characteristics of the products they are investing in.

There is growing interest in private markets, the industry speaker noted. While ELTIFs are suitable for private assets and UCITS are suitable for listed companies, there is currently a gap for hybrid products. Investing separately in a UCITS and an ELTIF misses the benefits of an integrated asset allocation within a single wrapper product. Adapting ELTIF structures to accommodate hybrid solutions that combine public and private assets more effectively could be considered in a future review of the ELTIF framework.

A regulator added that the EU is a global leader in sustainable finance, but more could be done to attract foreign investors by simplifying the existing frameworks.

#### 3.2 Investor protection and information

An industry representative emphasised that investor protection measures must be balanced, taking into account the long-term risk of failing to invest, particularly given inflation's long-term erosion of purchasing power. Educating investors on the hidden risks of not investing is vital. It is also important to focus on the value of investments, not just costs, and to ensure that products provide adequate and proportionate value to the risks they pose.

An industry representative agreed that communication about investment risks needs to be balanced, otherwise customers will continue to save money on banking and savings accounts. There are risks of not investing in the capital markets due to inflation-induced purchasing power erosion. Long-term data shows that global equities have significantly outperformed inflation over time, while inflation has consistently eroded the value of idle cash. In addition, while there may be regular market downturns, these are generally short-lived and can be mitigated through diversification of assets. Over the last thirty years, a globally diversified equity portfolio would have recouped 80% of every market downturn within a two-year period. Risks can also be significantly mitigated by diversification. Excessively focusing communication on the risk of losing capital when investing can be misleading

if not framed appropriately. A key challenge in terms of communication is finding an adequate balance between investor protection and encouraging long-term investment behaviour that involves some degree of risk.

### 3.3 Investment accounts and private pensions

An industry representative suggested that while refinements to the existing fund frameworks remain possible, the most significant added value for clients currently lies in developing tax efficient savings plans based on these frameworks. Digital ETF savings plans, which are easy to set up and attractive to young investors due to their digital access and ability to foster investment in a diversified portfolio of products, have been particularly successful in Germany. Currently estimated at 10.8 million accounts, with an expected expansion to 32 million by 2028 and €650 billion in assets, these plans have strong potential to shift part of the €10 trillion held in bank accounts into the capital markets. Their appeal lies in their simplicity, digital interface and clear communication. This model could be further expanded across Europe.

A second industry representative agreed that savings and investment accounts can help to address the current investment gaps in the EU. Considering global best practices, this requires adequate incentives to attract investors and create a regular investment stream into the European economy, while also avoiding overly restrictive rules on eligible investments in savings accounts, as investors need flexibility to achieve the best returns. Occupational pensions supported by auto-enrolment mechanisms and lifecycle funds that match risk and return over a period of time for investors can also play an important role.

A third industry speaker concurred that investors must be free to determine where to invest, and asset managers should offer products that provide the best risk-adjusted returns. Tax incentives also play an important role in encouraging people to save and invest. In the UK, for example, the Individual Savings Account (ISA) regime is an effective model that uses tax incentives to encourage people to save for the long-term.

A regulator also backed the creation of savings and investment accounts that would be simple, attractive and ideally tax incentivised. There is a need for tax harmonisation to support cross-border investment, which could potentially be achieved under the 28th regime proposed in the SIU Strategy.

### 3.4 Regulatory harmonisation and supervisory convergence

A regulator suggested that supervisory convergence should be further enhanced at EU level to make it easier for management companies to build scale in the EU. In addition, applications of a 28th regime should be explored, as this can help to bypass the political challenges of harmonising legal aspects such as corporate and insolvency laws and taxation, which contribute to fragmenting EU capital markets. Enhanced cooperation among member states should also be pursued to deepen market integration. Spain has set up a Competitiveness Lab with a few other member states to

test initiatives to further develop capital markets, such as the development of credit rating systems for SMEs and new standardised investment products.

A regulator agreed that supervisory mechanisms could be improved through clearer mandates and legal structures for supervisory colleges.

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## 4. Role of technology

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An industry representative observed that technology can significantly improve access to financial products and help investors to understand them better. Digital platforms such as neo-banks have simplified the onboarding process, improved user experience, and made products and services more accessible. Digital tools can also be used to provide investors with better information and empower them to make more informed decisions, in a more effective way than the current investor protection measures, which may focus too much on risks and discourage investment. Simplicity is also needed in the access to investment funds. One of the reasons why crypto is so popular at present, despite the risks, is that it is easily accessible.

Another industry representative agreed that digital platforms can be very effective in attracting new investors, getting people more comfortable with investing, and helping them to achieve greater diversification of their investments.

A regulator noted that digital platforms are playing an essential role for engaging younger generations and meeting their expectations in terms of services and products offered and ease of access. Digital solutions can therefore contribute over time to achieving the policy goals defined in the SIU.

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## 5. Conclusion

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The Chair summarised that the discussion demonstrated the strong potential for asset management to play a larger role within the SIU, benefitting European savers and the wider economy. A broad consensus was reached around the importance of simplification, access, digitalisation, and thoughtful regulation. The regulatory framework must be simplified, although this can be quite complex to achieve. In addition, simplification does not mean deregulation. There is also a need for greater simplicity in the access to products and for investors to continue to benefit from a sufficient level of advice. The upcoming trilogues on the retail investment strategy (RIS) will provide a crucial test for many of these ideas.