

# ASSET MANAGEMENT GLOBAL REGULATORY DEVELOPMENTS: What are the main Risks and Opportunities ahead ? How to act on them?

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**Global Regulatory Developments: what are currently the main Risks and Opportunities ahead ? How to act on them?**

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# 1. Sustainability

## ESG Rating and Data Product Providers:

- Lack of regulation on ESG Data Product Providers :
  - UK : FCA Code of Conduct of Providers expected by end of 2023
  - EU : regulation on ESG products currently debated in trilogue being narrowed to ESG Ratings, without touching at ESG Data Products and their providers (efficient lobbying from non-EU ESG Data providers)
  - However apart of IOSCO's 2021 global Recommendations
- AXA IM Position :
  - Need for reliability of ESG Ratings and Data Products
  - Methodology Transparency
  - Fee Transparency and Contract Terms Protection
  - EU supervision on non-EU Providers (S and P, MSCI, Bloomberg)

## ESMA Guidelines on ESG Fund Naming (expected by end 2023):

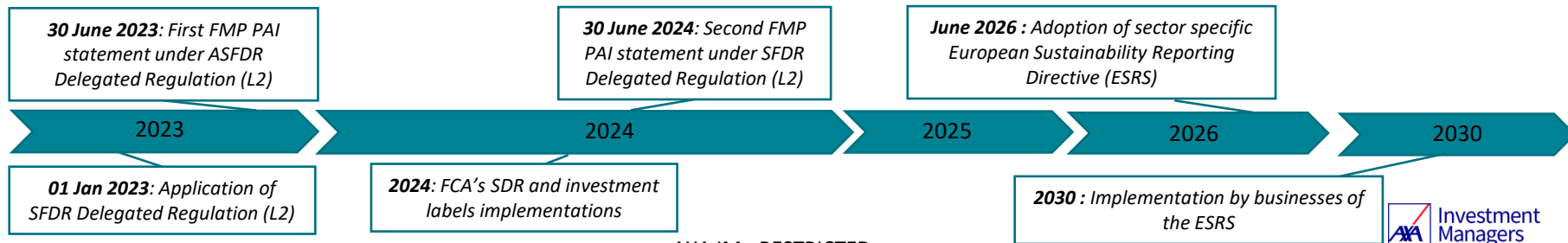
- To require a threshold of at least 80% of ESG/Sustainability assets for a fund which is using any ESG/Sustainability-related word in its name

## Sustainability Disclosure:

- European Union : Sustainable Finance Disclosure Regulation (SFDR) Level 1 Review (expected in late 2024 by the new EC Commissioner)
  - The AMF issued pro-actively a proposal for SFDR Level 1 Review: Sustainable Investment clarification, Transition Asset definition
  - AXA IM's position: SFDR L1 should be revised ONLY on a few targeted topics (to avoid uncertain outcome of EU political debate) – main clarifications should be given at ESMA Level (technical, not political)
- United Kingdom : Sustainability Disclosure Requirements (SDR) and investment labels
  - Aim to improve trust and transparency for sustainable investment products and minimize greenwashing :
    - Anti-green washing rule : May 31<sup>st</sup> 2024
    - Investment label rule : July 31<sup>st</sup> 2024
    - Marketing rule for asset managers : December 2<sup>nd</sup> 2024

## Issuers' ESG Data:

- ISSB issued its first two global standards in June 2023
- EC adopted the first Delegated Act on the first set of ESRS in July 2023, based on EU EFRAG's advice

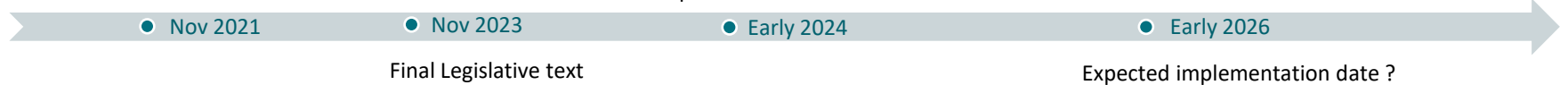


## 2. AIFM/UCITS Directives' Review

- **EU legislative timeline:**

EU Commission's (EC) proposal to review AIFM and UCITS Directives

Expected OJEU Publication date ?



- **Remaining Regulatory risks :**

- Reporting:

- Risk of additional data reportings:
  - ❖ fully new EU UCITS reporting
  - ❖ Portfolio Management Delegation reporting

- Liquidity Management Tools (LMTs)' management:

- Risk of prescriptive approach on definition and activation of LMTs by regulators

- Loan-originating funds (LOFs):

- Risk of 5% retention rule
- Risk of Leverage cap

- ESMA:

- Risk to impose additional requirements at Level 2 or 3

- **Our most recent actions:**

- Through the ICMA Asset Management and Investors Council (AMIC) that we Co-Chair, we passed our suggested targeted amendments to the European Parliament

- **Outcomes from AXA IM's actions:**

- AXA IM's influence in AMIC's, EFAMA's, AFG's and IA's positions
- As well as directly in EU Council's amendments
- Passed also to Rapporteurs of Conservatives and Liberals in EP, which took on board the majority of AXA IM's proposed amendments

### 3. EU Retail Investment Strategy (RIS) (1/2)

- **European Commission (EC)'s point of view:**

- Need to make available relevant, comparable and easily understandable information to retail investors
- Retail investors are more exposed to marketing due to new marketing channels
- Financial advice should always be in the best interest of retail investors
- Limit the offer of products that bear poor or no value for money for retail investors

- **Consequences for retail investors (according to the EC):**

- Only 17% of EU households' assets were held in financial securities in 2021
- 40% higher fees are paid by retail investors, compared with institutional investors (e.g. pension funds)
- 45% of Europeans are not confident that the investment advice they receive is in their best interest



- **EC's Main objectives:**

- Modernise disclosure rules
- Develop benchmarks on product costs
- Ensure that financial advice meets the need of retail investors
- Ensure that marketing is clear and not misleading
- Improve retail investors' knowledge of financial markets
- Reform the eligibility criteria for professional investors
- Enhance supervisory cooperation in coherent manner across the EU

### 3. EU Retail Investment Strategy (RIS) (2/2)

- **European Commission’s proposed legislative action package entitled “Retail Investment Strategy”:**
  - Publication date of EC’s RIS package: 24th May 2023
  - Retrocessions ban is limited to execution-only and RTO services: *Retrocessions for « advised » products (including funds) can remain*
  - « *Value for money* » concept proposed with the use of cost-benchmarks developed by ESMA
  - “*Financial Data Access FIDA*” legislation (28<sup>th</sup> June 2023): embeds danger of “*Open Finance*”: potential wide sharing of comprehensive retail – and non-retail - customer data (vs. GDPR), to the benefit of Global Banks and Tech firms
- **Remaining Regulatory risks according to AXA IM:**
  - **Ban on retrocessions**
    - EP's amendments may reintroduce this risk
  - **Value for money**
    - The text said that we should recommend to retail investors “cost-efficient products”
    - What is meant by “*Cost Benchmarks*”? Asset managers should be allowed to build their own benchmarks. And Cost should not be the single criterion to compare “Value for Money”
- **Our most recent actions:**
  - Through the AFG and EFAMA, we passed our suggested targeted amendments to the European Parliament
- **Outcomes from AXA IM’s actions:**
  - AXA IM’s influence in AMIC’s, EFAMA’s, AFG’s and IA’s positions
  - As well as directly in EU Council’s amendments

## 4. Other significant ongoing Regulatory topics

### ELTIF Review:



- The European Long Term Investment Fund (ELTIF) is complementary of UCITS (ELTIF eligible investments: Private Assets: real estate, infrastructure, private equity, private debt), with an EU retail passport at Single Market level
- AXA IM Reg Dev was at the initiative of ELTIF Review, both to get product flexibility, as well as to avoid EC spending too much time on AIFMD Review

### Systemic Risks:

- FSB's and IOSCO's Consultations on Non-Bank Financial Intermediation (NBFIs) and Open-Ended Funds (OEFs)
- EC's Report on NBFIs expected by end 2023, for action by next Commissioner from 2024/2025
- AXA IM's position: FSB (and EC) should focus on Unregulated Asset Managers (e.g. Archegos) and Unregulated Funds

### US and EU Financial Markets regulations:

- Main topics at risk:
  - US: Transition to T+1 securities settlement cycle on 24 May 2024
  - EU MiFIR: reduced deferral for public disclosure of block trades (Bonds), repeal of RTS 28