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## **Speech by Benoît de Juvigny, AMF Secretary General - European Congress of Asset Management - Thursday 13 October 2016**

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Good evening ladies and gentlemen,

It is with great pleasure and honour tonight that I conclude the European Congress of Asset Management.

After a fruitful day of discussions, I would like to share some of the AMF's thoughts or positions with you on your industry and its regulation.

I am firmly convinced that the French asset management industry is robust. At its disposal is a significant savings pool, which is undergoing structural growth, thanks to France's demographic footprint, with high quality investment strategies spanning broad fields of expertise, a number of which have met with international recognition, and first rate service providers, with as standard bearers the large French custodians.

May I recap on the key figures, which are impressive:

At the end of 2015, the French asset management industry could boast:

- 630 asset management companies;
- with nearly 1.9 trillion euros of net assets managed under French UCITS/AIFs an increase of almost 5% compared to the previous year; and
- more than 1.5 trillion euros of net assets under discretionary management.

When I refer to you, as asset managers, I mean your market is experiencing structural growth. I hasten to add that many firms in the financial services sector are not able to say the same thing.

The French asset management industry is also totally integrated in the European market, embedded with growing competition and rules, which are becoming increasingly European. This is why, I congratulate you for having set up this European event and my standpoint is necessarily European.

To end the European Congress of Asset Management, I take this opportunity to address two main topics:

- firstly, the current regulatory framework and our actual major work areas, and some sources of preoccupation
- and then, a look at the regulator's job and how we see the asset management industry today.

Asset management regulation is faced with a triple challenge: investor protection, but also with the challenges of financial stability and financing of the economy.

## Investor protection

This has always been the core objective of regulation in this sector. Europe's structural regulatory projects (AIFM-UCITS 5 framework) are areas of particular focus for us. Here I refer to:

The quality of information provided to investors, and how to make this more transparent, but at the same time, more pertinent. This is the main objective of the PRIIPs regulation. The context of the development of cross-border transactions via the passporting mechanism, and how to best ensure that marketing activities serve "retail investors properly.

In the context of PRIIPs, this is one of the AMF's major objectives. However, we are well aware of the exacting technical requirements of the PRIIPS regulation. We know that it presents a challenge for our asset management firms and in particular, for those entrepreneurial structures specific to the French market.

→ Although the next steps regarding the regulatory technical standards are yet to be clarified by the European Commission, we will continue to work, alongside the Treasury department, on a request to delay the regulation's entry into application.

→ We will also continue to oppose a hurried entry into application of the level 1 text, as long as there are no level 2 specifications. However we are not in control of the timeline, as this depends mainly on the European Commission and the European legislators. I am more optimistic on the outlook for participants developing their cross-border activities via the passporting mechanism - we have witnessed the strong growth of the cross-border offer/supply of funds in Europe and the success of the text that regulates this.

→ A recent study published on this subject outlines just how successful the text is. In 2016 80% of UCITS and 40% of European AIFs hold a cross-border passport.

Nevertheless, in order for this text to function fully, investors' must be fully confident and their protection must be guaranteed. Functional improvements are certainly possible.

→ However, in my opinion, there are specific cultural and linguistic features that have to be taken into account when turning to products that target the general public.

→ It is for this reason that the AMF therefore wishes to see that the leading role of national regulatory authorities is endorsed, so as to verify that the nature of demand corresponds to that of supply, and, in particular, regarding European funds' marketing documents.

## Potential risks that asset management could pose for financial stability

Past financial crises initially led to structural reforms in the banking and financial markets sectors. We understand the focus is now on asset management.

At the international level:

The Financial Stability Board (FSB) and IOSCO work hand in hand on two major sources of vulnerability: liquidity risk and risk related to leverage. The FSB has published a consultation document on 22 June proposing a number of recommendations. As you may know, the AMF led this work at the international level, which we are proud of. This leadership role has on one hand, led to the shift from an approach centered on large players and large funds to one which focuses more on the activity of management; and on the other, raised awareness

among regulators of the asset management profession's specific features. Funds and asset management firms cannot be treated in the same manner as banks.

At the European level:

The draft money market fund regulation aims specifically at addressing the risks that this category of fund can entail with regard to financial stability.

→ Today in France, money market funds represent more than 300 billion euros – and here again, are on the rise. It is an important market for us, which we stand by, particularly, because we believe in the variable NAV money market fund model, and believe this to be the only model which embraces both the objectives of financial stability and equal treatment of investors.

→ You are no doubt aware of the current discussion within the Trilogue. Negotiations conducted by the Treasury are ongoing with our support.

I hope to reach a compromise by the end of the year, so as to better respond to the expectations expressed by international asset management regulators since 2012 !

Lastly, at the national level, on the matter of stability:

In total consistency with work at an international level, the AMF is as keenly focused as ever on issues related to financial stability in the supervision of its participants. Traditionally, with the protection of investors at heart, the regulator was and is interested in funds' assets. It has increased its focus on the management of liquidity risk by taking the liabilities of the funds into consideration — an Asset-Liability Management (ALM) method.

In this regard, the AMF is associated with or has promoted two recent initiatives:

→ The current legislative reform in SAPIN 2, which would allow managers to adopt "gates" in exceptional circumstances, in order to better manage redemption requests in a timely manner. This tool, which already exists for certain funds could be applied more generally so as to reconcile the imperatives of financial stability with investor protection, thanks to the appropriate prior information of investors.

→ The recent work presented for consultation by the AMF aims to identify best practices regarding "stress tests". The objective here is to accompany professionals by providing concrete illustrations of the best practices or the recommendations with regard to liquidity management tools.

Therefore, as you can see, the AMF is active, at international, European and national levels, in order to define or improve the appropriate regulatory framework for the asset

management industry.

Regulation must also allow the asset management industry to contribute to the financing of the economy

The financing of the economy and the space allocated in this respect to market financing are also at the core of current reflections on financial regulation, in particular in the context of the Capital Market Union.

In this respect, I am convinced that the asset management industry has a key role to play in the financing of the economy, in a context where the role of banks in this area is constrained.

→ The AMF has demonstrated this will, through the reactivity of its divisions for instance in the authorisation of the first ELTIFs in Europe.

→ The AMF has also been closely associated with the recent developments related to the role of funds in loan attribution.

> Today this involves more than 40 asset management firms, be it (i) via the investment in issued loan debt securities or (ii) by direct lending.

> With regard to the two latter points, the AMF ensures that the regulatory framework is adapted to this development.

- Concerning the selection of debt securities, the AMF has long set out its requirements, particularly in terms of the resources that an asset management company shall possess.
- Concerning loan attribution by funds, other than ELTIF funds, the AMF oversees that, in order to develop such activities, asset management firms notably possess the appropriate resources and are strictly regulated in terms of leverage, and maturity transformation.

I now turn to the final part of my speech and I wish to share some thoughts with you on the role of the regulator and the promotion of the Paris market place.

**An efficient regulator should know how to enforce the applicable regulatory framework**

This comprises a chain of "controls" which is crucial for our credibility and which can give rise to sanctions, but also to administrative measures, a form of "settlement" à la française.

Among more recent topics, I can cite for instance,

- Pre-allocation/selection of bonds orders

- Formula funds and how they work
- Private equity valuation methods.

**Aside from the control function, an efficient regulator, is a regulator who is committed to the competitiveness and the attractiveness of its market place – in our case, the Paris market place.**

This is the reason why we launched the FROG initiative with the AFG, under the leadership of Didier le Menestrel. This initiative aims at increasing French asset management's attractiveness to international investors and at the promotion of French funds.

The work undertaken helped carry out a positive assessment of the strengths and advantages of the French management industry.

Hence, in the context where European regulation is becoming more detailed and precise, and on the basis of your requests, we have analysed and revised the French regulatory framework, and proposed and decided up on a number of enhancements:

- collective investment undertaking classification ,
- also the regime of pre-marketing

We continue to work on fee schedule disclosure, fund governance or indeed on the conditions for the delegation of financial management. We will be making some announcements very soon.

Beyond these regulatory matters, we have also focused our work on more operational topics and in particular, on subscription/redemption procedures for French funds. We already have a number of efficient tools, but together with these, we also wish to provide a solution for direct orders, and as a complement, with the creation of the regime of registered intermediaries (for units of funds), which will become French law (SAPIN 2).

All these initiatives are driven by the same conviction, which is to provide a balance between investor protection and the efficiency of our regulatory framework.

On top of the FROG initiative, the AMF is actively accompanying other new players. We have set up a Fintech, innovation and competitiveness division (FIC), whose mission is to analyse current innovations in the financial services sector, and to identify the challenges regarding competitiveness and regulation.

This division has just launched Agility, which demonstrates the AMF's will to become an agile institution, studying the ecosystem in which supervised market participants develop. It is all about accompanying supervised market participants in their initiatives to expand their fields of activity or in their relocation, by offering them in particular:

- direct access to our specialised expertise, in contrast with other authorities who act more

as intermediaries ;

- statute granularity and rules calibrated on the proposed activity ;
- access to the single AMF-ACPR window for innovative companies/FinTechs.

Agility is the starting point of progressive transformation which the supervisors are undertaking to address the profound changes in financial services models. In this respect the AMF is somewhat of a pioneer.

The Agility programme also concerns Brexit.

Brexit is bad news for European finance; however, it can also offer opportunities to the Paris market place.

We recently announced the "2WeekTicket" which allows companies established in London and authorised by the FCA to obtain a pre-authorisation from the AMF within 2 weeks, accompanied by English-speaking interlocutors and documentation in English. Furthermore, once the authorisation process is completed, the applicants obtain access to the European passport, all within a most competitive timeframe.

### **To wrap up, the promotion of an efficient regulator in its daily functions**

Within the AMF's Asset Management Directorate, a referenced interlocutor is assigned to follow each market participant, to deal with their requests within extremely tight timelines. As a result, in 2015 nearly 1200 funds were authorised by the AMF, each in less than 17 days on average. We are also undertaking other initiatives so that such attributes and advantages are more widely known by foreign market participants - for instance by the organisation in Paris in mid-November, of a Franco-Chinese asset management forum, which will bring together both regulators and asset managers. Come and join us.

Alongside the AMF, it is essential that, and this being my last point, the French asset management industry takes part in the promotion of the Paris market place at an international level. This is one of the key themes of the FROG report which will be published in the coming weeks and I trust that it will prove most ambitious in this respect.

### Conclusion

I have shared some thoughts with you on the complexity of the role of a fully committed national regulator at an international level, and who is very much focused on the quality of the regulatory framework, on the efficiency of its divisions, but also on the French asset management industry's competitiveness.

I am most optimistic about this industry's future because it will capitalise on its numerous assets to develop its communication and its ability to innovate.

Thank you for your attention.

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