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Three proposals to develop cross-border investments in Europe

In the context of Capital Markets Union, the European Commission is investigating the obstacles to cross-border investment in Europe. In a study published in September 2016, the Autorité des Marchés Financiers showed that with respect to savings products, the main obstacles are not administrative and regulatory barriers, but rather a lack of investor confidence in products not created or supervised within their own country.

The AMF has three new ideas for invigorating cross-border marketing and restoring investor confidence by offering equal protection for all investment products regardless of their country of origin.

Offer investors more choice

"Europe needs to promote open architecture and technologically innovative distribution and marketing methods"

One positive change with respect to European investment products is already under way: the digitalisation of distribution networks. These new distribution channels use an open architecture model and are helping to expand the range of products offered, leading to a better allocation of investors' savings.

These new opportunities need to be taken into account in a sensible manner in the next regulatory changes.

- First of all, regulations must not be so restrictive as to force investment product distributors to return to closed-architecture distribution models, which only offer products created by their group or a few partners to their clients.
- In addition, the AMF is calling for a European discussion on new consumption practices, for example by highlighting the value of advisory services and harmonising marketing rules in the various Member States, including for online sales.

Shield investors from misleading advertising

"Promotional and marketing materials must be subject to controls by the market authority in the country in which they are read"

European regulations must not take away host-country authorities' ability to verify that the cross-border marketing of financial services is suited to the specific characteristics of retail investors within their borders. It is vitally important that all types of advertising and marketing materials are subject to supervision by host-country authorities, who are the only ones with the relevant knowledge of local cultural norms, distribution networks and advertising methods. To ensure consumers are protected, authorities need a subtle understanding of the language, level of financial education, risk profiles and preferences of individual investors. This is the best way to maintain confidence in products from other Member States.

Supervise marketing at the investor level

"A reflection should be launched on the supervision of the freedom to provide services"

Supervisory authorities' ability to monitor marketing efforts conducted in other countries is woefully insufficient. Unscrupulous individuals set up shop in countries where the authorities have fewer resources, in order to use the European passport via the free provision of services. This gives them de facto impunity because the cooperation procedures that currently exist in European texts, such as the one provided by the Article 62 of MiFID for example, are long and complicated. This is a dangerous state of affairs for individual investors, which undermines their confidence in products and services offered by institutions located in other EU countries. Over the last six years, French judicial authorities estimate that French retail investors have lost €4.5 billion on trading websites specialising in trades in forex and complex derivatives operating more or less legally in Europe.

Therefore, it is urgent to initiate a debate on the state of market supervision architecture with respect to the European passport, with a view to give host-country authorities clear and immediate power over service providers targeting investors in their country through the free provisions of services.

Read more

↘ Cross-border distribution of funds in Europe: identify the real barriers and enhance investors' confidence

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Head of publications: The Executive Director of AMF Communication Directorate. Contact: Communication Directorate – Autorité des marchés financiers 17 place de la Bourse – 75082 Paris cedex 02