CFA Institute

EU Advocacy

Investment firms face a future in which change is accelerating. This requires investment firms to recognise these changes and adapt to them.

A forward-thinking investment industry that copes well with change will be characterised by:

- Holding itself up to clearer, higher standards
- Becoming more proactive and purposeful
- Adding value well beyond the rewards it enjoys itself
- Making positive contributions to society's deeper-rooted issues.

Industry shifts:

- Governance and culture are upgraded. Enhance the value created by industry
- Technology is firmly embedded. Automation, quantitative strategies, AI and machine learning will change how financial services are delivered and how information is used.
- Sustainability woven into the fabric. An integrated and sustainable long-term horizon investment framework

Capital Markets Union

ISSUES

- Market fragmentation and the rise of private markets;
- Need for alternatives to traditional bank financing
- Several obstacles that negatively affect small and midsize enterprise (SME) financing remain unaddressed;
- Heterogeneity in taxation rules;
- Wide diversity in regulations regarding ownership and transfer of securities across member states are not facilitating the cross distribution of transactions and investment vehicles; and
- Securities lending practices for collateralisation considered excessive in certain circumstances, leading to illiquid and unstable financial markets.

RECOMMENDATIONS FOR EU INSTITUTIONS

- In line with CMU objectives, focus policies on incentives and products that will encourage long-term investments by savers (whether through private or public markets), for the benefit of SMEs looking for attractive capital raising solutions. Alignment of interest is key to successful capital markets.;
- To alleviate the concerns around potential unintended consequences of MiFID II, policies should focus on the mechanisms that could be necessary to ensure an efficient market for independent research gradually establishes, with enough coverage and quality throughout the economic spectrum (including SMEs);
- Monitor the impact of regulatory measures on smaller firms with less economic resources and lower capacity to adapt. One solution may be to segregate and nurture such firms on a venture exchange that signals lighter touch regulation;
- Continue to set a clear focus on investor protection, by enhancing standardised disclosure requirements;
- Consider the appropriate mechanism required to grant the European Securities and Markets Authority more direct supervisory powers over practices and rules pertaining to cross-border distribution of investment funds. This could help reduce the current obstacles to the passporting of relevant products to investors across the Union.

FinTech

ISSUES

- Increased likelihood of flows resulting from automated financial advice, creating behavioural biases in clients; and
- Lack of regulation for crypto assets, leading to market manipulation and inefficiency.

RECOMMENDATIONS FOR EU INSTITUTIONS

- Introduce a European framework for crowdfunding and peer-to-peer lending, setting equivalent requirements for firms conducting similar types of activities across borders in the European Union;
- Facilitate and support the creation of innovation thinktanks and advisory boards to serve as resources and intermediaries for start-ups looking to use financial technology for capital raising; and
- Evaluate the need to regulate crypto assets and further the discussion as to whether they constitute financial instruments – if so, under what circumstances.

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Sustainable Finance

ISSUES

- Lack of agreed-upon definition for environmental, social and governance (ESG) issues and related to issuer disclosure;
- Dissimilar training for investors on how to consider ESG factors;
- Lack of quality and comparability of ESG data;
- The voice of minority shareholders promoting ESG strategic decisions for companies sometimes insufficiently heard; and
- Variable regulatory or legislative approaches for dealing with integration of ESG issues in investment analysis and decisions.

RECOMMENDATIONS FOR EU INSTITUTIONS

- Through our Corporate Governance Manual, we continue to advocate strong standards for how investors should include governance issues in the investment analysis and decision making process.
- Promote greater board accountability to minority shareholders. Discourage the practice of differential ownership rights and dual-class shares; and
- We support the work done by the European Commission's Technical Expert Group and its Technical report on EU taxonomy. CFA Institute believes some degree of standardisation will be necessary for the emergence of meaningful sustainable finance products and services. Given the quick pace of changes observed in technology, research and the economy at large, we would recommend that such taxonomy also permit enough flexibility to adapt to those changes over time, while retaining its focus on core sustainability objectives.

Value for Money

ISSUES

- Still insufficient understanding of how investment products are sold and the fees paid by retail investors or how the investments are performing and the value being received by such investors;
- Exclusion of the presentation of past performance information in the packaged retail investment and insurance products (PRIIPs) key information document KID does not enable investors to have all the useful information to make their decisions; and
- Lack of clarity in the PRIIPs Regulation regarding its scope of application, which may lead to a conservative approach by financial institutions on the type of products to offer to retail investors
- Potential unexpected negative impact on the quality and coverage of research resulting from Markets in Financial Instruments Directive (MiFID II) rules.

RECOMMENDATIONS FOR EU INSTITUTIONS

- Enhance the consistency of definitions and rules pertaining to reporting requirements on costs, charges, risks and returns across the various relevant regulatory frameworks (e.g. MiFID, AIFMD, PRIIPs);
- For investors to be in a better position to judge if costs and charges they pay are fair and reasonable, focus policies on the quality and meaningfulness of the information received by investors rather than the quantity of metrics.
- Have a closer look at the potential unintended impact of MiFID II rules and the cost/benefit to the industry, competition and investor choice regarding the unbundling of investment research cost provisions; and
- Clarify the scope of application of the PRIIPs Regulation. Permit the introduction of information on past performance in the KID, as the only true and simple measure of investment managers' actual performance.

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