

Key messages from AFG members

AFG warmly thanks the EC for the opportunity to provide a contribution to this targeted consultation.

AFG fully shares the objectives of the European Commission, building upon the workstreams of the IMF, FSB and IOSCO: a robust and efficient regulatory and supervisory framework is of paramount importance for the competitiveness of the European financial industry. By ensuring financial stability, with liquid and transparent markets, we can foster the private investors' confidence on which rely the risk sharing, in the context of Capital Markets Union (CMU), and the search of steady source of funding of the European economy.

AFG is supportive of these objectives and is ready to contribute through these responses with the strong conviction that the European asset management industry must be a vector for stability of the financial sector, diversification of funding sources in addition to banks, and fulfill its role as a vital source of liquidity for the real economy. Most of the comments and proposals formulated by AFG will naturally be related to this industry.

Many important topics are covered through this consultation paper. AFG would like to highlight some of them:

The “NBFI” concept blends many different types of market participants, creating a risk of confusion and a need for clarification. AFG would prefer to drop this notion and promote a safe practice where actors are simply referred to by their names: Insurance companies, CCP, family office, OEF, MMF, pension funds, hedge funds, ...

Rather than having a focus on NBFI, it should be more appropriate to draw a line between regulated and unregulated entities but also EU and non-EU ones. The international regulatory community should obviously pay more attention to the unregulated sector as opposed to already well-regulated markets such as the EU markets.

However, regarding the EU markets, they are indeed a matter of improvement. Unlike the US market, it is a fragmented landscape. Accordingly, the coordination between NCAs and between NCAs, NCBs and ESAs should be improved, notably through data sharing. Funds managers currently face many reporting requirements, of many types, in many formats, with different frequency. There is room to reduce the reporting burden by streamlining the corresponding requirements. They should be improved to adopt the principle of burden reduction: *‘report only once with one single template and timeline.’*

Unmitigated liquidity mismatches should be fully addressed with the liquidity management tools (LMTs) wide adoption in Europe resulting from the review of the UCITS/AIFM directives. This “game changer” will bring Europe to the forefront regarding liquidity risk management. Parallely,

measures should be taken to improve the client base knowledge, at least the composition of the liability structure by categories of investors.

A broader range of collaterals for settling variation margin calls should be considered. With the ability to use as collateral high-quality assets other than cash, counterparties would have limited need to sell assets.

It is key to preserve two characteristics of supervision that are deemed fundamental according to AFG: proximity and reactivity. Crisis should be treated rapidly and locally, when possible, by ensuring an efficient dialogue between the NCA and the fund manager.

Unlike banks, large asset managers cannot be seen as “global systemically important” because of their business models : management company as such cannot become insolvent as it mainly manages the assets of its clients and not its own assets. The clients are ultimately bearing the economic risks.

For large cross-border asset managers, the recognition of the notion of group and the designation of a lead NCA is necessary.

Regarding ESMA, we believe that its existing mandate could evolve to integrate competitiveness, such as the FCA, but also the European sovereignty.

We believe that VNAV MMF, with the Marked to Market valuation principle, proved to be resilient under the prevailing MMF regulation and cannot be seen as mean of liquidity risks amplification. Increasing liquidity buffer individually or collectively is useless and inefficient, and bears negative side effects, notably procyclicality during periods of stress markets.

We are not opposed to the introduction of an EU-wide stress test. It must help to better understand the interconnectedness between the various financial participants. It should be properly collaborative and targeted. Moreover, it should not be only an additional layer that creates further burden for asset managers. By giving back valuable information, this exercise could give the regulators the opportunity to bring benefit to the industry through an appropriate feedback loop.