Asset management

A POST CRISIS STRATEGIC ADVANTAGE FOR FINANCING ECONOMIC ACTIVITY


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The French asset management industry is a global leader. The number of management companies has doubled in the past 15 years, reaching 613 at end-2013. More than half of them are so-called entrepreneurial boutiques, while others are subsidiaries either of French banking, insurance or financial groups (four firms rank in the top 25 worldwide) or of international groups
Bank credit accounts for three-quarters of total business financing in continental Europe at present. In future a larger share will have to come from markets. Consequently, asset managers will play a bigger part in ensuring that savings, whether from French or foreign origins, are properly channelled to benefit the economy and boost job creation.
For that reason, a strong and competitive asset management industry is a vital and strategic asset for our country. It already plays a key part in providing capital to French companies (accounting for 20 per cent of the free float in the CAC 40 index of leading shares), banks (44 per cent of certificates of deposit) and central government (more than 20 per cent of the stock of Treasury bonds).

The regulatory and tax environment needs to do more to encourage long-term saving

The legal and tax environment in which asset managers operate has deteriorated sharply in recent years. In fact, its key contribution to the effective management of clients' investments and the financing of our economy is now in jeopardy. It is high time to reverse this unwelcome trend.
From a regulatory perspective, nearly everything is now decided at European level. Naturally, regulation needed to be stricter and, above all, more consistent in the area of finance, eliminating the too-numerous areas where no law seemed to prevail. But that is no excuse for regulatory instability or for the torrent of rules and regulations that has overwhelmed the asset management industry with some 20 material pieces of legislation. Moreover, this legislative onslaught has driven up costs and heightened competitive inequities between different types of market participants and different geographical areas without delivering meaningful benefits to savers and investors or shoring up their confidence. It should be noted in particular that, unless adjusted, the Level 2 measures for MiFID 2 as envisaged by ESMA could have a devastating effect on the marketing chain for asset management products. In parallel, the recent determination shown by the European Commission to promote legislation encouraging long-term investment should be welcomed. Shifting the emphasis from punishing to encouraging is clearly the way forward!
In terms of taxation the main focus is more domestic, apart from the European plan for a financial transaction tax that, as it currently stands, would deal a lethal blow to the asset management industries of the countries that would adopt it, to the benefit of those such as the UK, Ireland and Luxembourg that will steer well clear. In France, the tax issue is clear: we need to roll back the past 15 years and openly embrace measures that foster long-term saving.

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Commendably, the 2014 Finance Bill makes some headway in this respect, with a slight adjustment to the ceiling on the PEA personal equity savings plan, the creation of a PEA investing in small and midsized businesses, and larger and quicker rebates on taxable capital gains on equities.
Yet these measures are too half-hearted, as financial investment in France has fallen sharply over the past decade and is now ploughed mainly into bank deposits, savings passbooks and non-unit-linked life insurance rather than directly into securities or funds. Meanwhile, pension fund reserves have been hard hit by falling demographics and rising joblessness. As a result, the French market posted an investment outflow in 2013, an unfortunate contrast with other markets in Europe, including in the south, where equity fund investment has bounced back strongly. Fortunately, that downtrend seemed to be on the turn at the beginning of 2014.
Awareness does seem to be dawning, but more assertive and farther reaching action is needed if French savers are to play an active part in financing future growth and jobs. This can be achieved by relying on the strong, dynamic asset management industry that is a strategic asset for our country. That will be one addressed by the Paris Marketplace Committee 2020, inaugurated in June 2014 by the finance minister and administered by the Treasury and Paris Europlace. The asset management industry will play an active part in the committee's work.

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