THE AUSTRIAN, FRENCH, ITALIAN AND SPANISH FINANCIAL MARKET AUTHORITIES GIVE THEIR KEY PRIORITIES FOR A MACRO-PRUDENTIAL APPROACH TO ASSET MANAGEMENT

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As the European Commission prepares to launch its consultation on the macro-prudential treatment of risk in asset management, four major European market authorities, the Austrian *Finanzmarktaufsicht* (FMA), Italian *Commissione Nazionale per le Società e la Borsa* (CONSOB), Spanish *Comisión Nacional del Mercado de Valores* (CNMV) and French *Autorité des marchés financiers* (AMF), have set out their views on the priorities in the debate on a macro-prudential approach to asset management.

The risks stemming from non-bank financial intermediation (NBFI) have been subject to scrutiny from regulators worldwide over the past years, especially as its share in the global financial system has been increasing since. In addition, concerns have been raised about potential significant negative effects that shocks, either spreading through or originating from NBFI, may have on the real economy.

These debates are important and legitimate.

When designing regulations to address asset management risks, its specific features should be considered. The asset management ecosystem is different from that of banks and as diverse as the vulnerabilities evidenced so far. Therefore, the nature of the risks that regulators aim to address needs to be precisely defined: regulators should target as a matter of priority those features of asset management generating excessive price volatility and liquidity stress. Capital requirements and liquidity buffers are not the best suited solutions to mitigate those risks in terms of financial stability

With respect to the above considerations, and focusing on the asset management industry the Austrian, French, Italian and Spanish authorities have identified five priorities that stand out. The first three relate to short- and medium-term measures while the others should be explored in the longer term:

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- **Ensure a wide availability and greater use of liquidity management tools (LMTs) in all kinds of open-ended funds (OEFs)**: the recent Alternative Investment Fund Manager Directive review will allow for a significant progress in this adoption of LMTs, although level two measures are still in the making;

- **Ban amortised cost accounting for Money Market Funds**: amortised cost accounting is intrinsically detrimental to financial stability, amounts to making false claims to investors, making them believe that they enjoy a stable net asset value (NAV), and generates incentives for first movers;

- **System-wide stress tests** should also be envisaged to better understand the vulnerabilities of each asset management group and its interconnections with other participants in the financial system;

- **Introduce a truly consolidated supervisory approach for large cross-border asset management groups**: as their teams and funds are currently supervised by different NCAs in different countries, creating a supervisory college for these groups would bring strong benefits both in times of stress and in normal market conditions;

- **Create an integrated data hub shared by market supervisors and central banks**, serving their respective needs, both for day-to-day supervision and stress-testing exercises.

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