EUROPEAN COURT OF AUDITORS

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Press Release

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EU auditors check on progress towards a single market for investment funds

The European Court of Auditors (ECA) has launched an audit to assess the EU's progress in creating a single market for investment funds. The auditors will examine whether the evolving set of rules is fit for purpose and whether the EU has promoted common supervisory practices among Member States and effectively mitigated risk to investors, markets and financial stability. In the audit preview published today, the auditors also point to potential sector vulnerabilities and risks to financial stability. For instance, in the context of the COVID-19 pandemic, in March 2020, large outflows across investment funds resulted in market turmoil.

"*In times of very low interest rates, it is especially important to protect consumers seeking returns on their savings and to ensure financial stability*" said Rimantas Šadžius, the ECA Member leading the audit."*Our audit will verify whether the EU has created an effective single market for all types of investment funds which serves both investors and businesses*."

Investment funds help ensure a cost-effective allocation of capital to businesses and provide investors with potentially high returns, above bank rates. They are the most important non-bank financial intermediation sector in terms of asset value and fall into two main categories: for retail investors (e.g. bonds) and professionals (e.g. hedge funds). In September 2020, the net asset value of some 64 000 investment funds domiciled in Europe amounted to around €17.6 trillion – an increase of more than €10 trillion since 2009. Households own almost two thirds of European investment funds based on their net assets, either directly or via insurers and pension funds, which underlines why consumer protection is so important.

The EU has been gradually stepping up its regulation of the sector, in particular since the 2008 financial crisis. However, despite its efforts to develop the single market and the fact that funds domiciled in the EU for both retail and professional investors benefit from the "European passport" for marketing across the EU, the investment fund industry remains concentrated in a few Member States. In 2020, more than 80 % of all net assets under management were held in Luxembourg (€4.7 trillion), Ireland (€3.1 trillion), Germany (€2.4 trillion) and France (€2 trillion),

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while over half of all net assets of retail investors (what are known as UCITS funds) were domiciled in Luxembourg or Ireland. In addition, as recently as 2018 some 70 % of all assets under management in the Union were held by funds authorised or registered for distribution in just one Member State. Since many rules are determined at Member State level, there may be significant regulatory differences between them.

Background information

Investment funds are created with the purpose of pooling capital and investing it through a portfolio of assets such as stocks, bonds and real estate. They play an important role in the Capital Markets Union, the EU's flagship initiative to get investments and savings flowing across the Union. EU regulations aim to create a single competitive market for fund management companies to give investors a wider choice of products they can trust and reduce fees.

For more detail, see the audit preview "A single market for investment funds – ensuring investor protection and financial stability" available in English at eca.europa.eu. Audit previews are based on preparatory work before the start of an audit and should not be regarded as audit observations, conclusions or recommendations. This is the ECA's first audit on investment funds and latest in a series of audits on supervision in the EU's financial sector that includes reports on supervision of credit rating agencies, banking supervision, stress testing, insurance oversight and capital markets. The report will be published in about a year's time.

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