



## Press Release

Luxembourg, 21 February 2022

# Benefits of EU single market for investment funds still largely unrealised

**The EU has a framework in place to establish a single market for investment funds across EU borders, and to ensure that EU citizens' investments are protected. But not all of its ambitious goals have been achieved, says the European Court of Auditors in a special report published today, and many potential benefits for investors remain untapped. The objective of a true single market for investment funds has not been met, and cross-border activities remain rare. Funds are still not supervised consistently across all Member States, investor protection remains weak, and systemic risks are not adequately monitored.**

Investment funds play a key role in the European capital markets union, helping investors to allocate their capital efficiently. In 2020, investment funds across the EU held almost €19 trillion in assets. Almost 70% of the EU funds market is still concentrated in just four Member States: Luxembourg, Ireland, Germany and France. To promote a healthy and productive investment fund industry and to protect investors, the EU has taken action and established a regulatory framework for investment funds to ensure that similar rules apply across the single market.

*“The hope was that a more integrated investment-fund market would offer EU businesses more diverse sources of financing, and give investors better protection and wider choice”, said Rimantas Šadžius, the ECA member who led the audit. “But cross-border barriers remain, supervision standards still differ across the EU, and not all of the potential gains have been realised.”*

The auditors found that a number of persistent weaknesses are still restricting the benefits of the EU's investing environment. Truly cross-border investment activity remains rare: in most EU countries, investment funds are distributed mostly on the domestic market. They also found that many of the expected gains for investors, such as lower fees and greater investor choice, have not yet materialised: costs continue to be high, and differ significantly from one Member State to another. Market entry barriers persist, which means that there is still no level playing field. The auditors also note that certain issues affecting the market, such as taxation, local demand and the way in which asset managers choose to distribute their investment funds, cannot be addressed by EU law.

EU actions have contributed to increasing the transparency of investment funds, the auditors note. Investors are better informed than they used to be about the risks, performance and costs of investments. But it is still very difficult for investors to compare funds across the EU. And investors are still not adequately protected against various issues: undue costs arising from opaque selling practices, for example, or biased advice from financial intermediaries leading

*The purpose of this press release is to convey the main messages of the European Court of Auditors' special report. The full report is available at [eca.europa.eu](https://eca.europa.eu).*

## ECA Press

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them towards products which are not well suited to their needs. “Greenwashing” is a problem in this context: the auditors note that the “ESG” label for environmentally and socially sustainable funds is currently unregulated, and is liable to be misused to sell products which do not fulfil high ethical standards.

The auditors also found issues with the consistency and effectiveness of fund supervision. The EU agency responsible (ESMA) has strived to promote supervisory convergence, resulting in slightly better supervision and fewer divergences. But since it relies on the goodwill of national supervisors and the willingness of its own Board of Supervisors for information, it has limited knowledge of whether an equivalent level of supervision is performed across Member States, and it cannot measure whether progress towards supervisory convergence has been made.

The audit also raises questions about the fitness for purpose of the Commission’s legislative approach: the legislation governing cross-border regulation of investment funds mainly consists of Directives, laws which require Member States to implement their own versions of the rules according to their own interpretation and their own circumstances. This practice has led to significant regulatory differences between Member States.

The auditors make a number of recommendations to improve the situation. But they warn that minor revisions of the legal framework alone will not be sufficient to achieve a true single market.

### **Background information**

In 1985, the EU introduced measures to remove barriers impeding the operation of investment funds across internal EU borders. Since then, funds and fund managers domiciled in one EU country have been able to market their funds to retail investors across the EU, supervised only by the authorities in their country of domicile. In 2011, the Alternative Investment Fund Directive also made it also possible to market special funds to professional investors across the EU. In the same year, the European Union set up an agency, the European Securities and Markets Authority, devoted to improving investor protection and helping financial markets to run smoothly.

Special report 04/2022, “*Investment funds: EU actions have not yet created a true single market benefiting investors*”, is available on the ECA website ([eca.europa.eu](https://eca.europa.eu)). The audit is intended to contribute to increasing the effectiveness and efficiency of financial supervision and investor protection within the EU.

The ECA presents its special reports to the European Parliament and the Council of the EU, as well as to other interested parties such as national parliaments, industry stakeholders and representatives of civil society. The vast majority of the recommendations made in the reports are put into practice.

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