ESMA reports on supervision of costs and fees in investment funds

PUBLISHED MAY 31, 2022
BY EUROPA

The European Securities and Markets Authority (ESMA), the EU securities markets regulator, today publishes a report on the Common Supervisory Action (CSA) on costs and fees for investment funds, that was carried out with National Competent Authorities (NCAs) during 2021. ESMA highlights, in the Report, the importance of supervision in ensuring investors are not charged with undue costs, considering its high impact on investors' returns.

Verena Ross, Chair, said:

"ESMA, through this CSA, has worked with the NCAs to assess, foster and enforce supervised entities' compliance with key cost-related provisions in the UCITS framework, in particular the obligation of not charging investors with undue costs. Costs remains a critical component when evaluating the ultimate benefits of an investment and, as ESMA has shown in its recent statistical reports, they remain higher for retail investors than for institutional investors.

"In order to promote retail participation in the fund market, continued supervisory attention is needed on the topic of costs and fees in investment funds."

The CSA Report presents the main results of this exercise, namely:

There is room for improvement on the application of the ESMA supervisory briefing on the supervision of costs in UCITS and AIFs, particularly for smaller management companies;

Some questions arise concerning compliance with delegation rules where portfolio managers i.e. delegates, exercise significant influence or even decide the level of costs;

Divergent market practices exist as to what industry reported as "due"

or “undue” costs;

Some NCAs discovered conflicts of interest at UCITS managers, in particular in case of related-party transactions;

In some instances there is a lack of policies and procedures on efficient portfolio management (EPMs) and lack of clear disclosures as required under the ESMA Guidelines on ETFs and other UCITS issues; and

Widespread use of fixed fee splits arrangements for securities lending continues, with unfavourable results for retail investors.

On the topic of investor compensation, ESMA stresses the importance of ensuring that investors are adequately compensated in all cases where they were charged with undue costs or fees, and also in cases where there were calculation errors that resulted in a financial detriment for investors.

Next steps

ESMA invites NCAs to use this opportunity to also consider enforcement actions in the cases where a significant regulatory breach was identified, particularly bearing in mind that the area of costs and fees is a priority due to the high relevance for investor protection.

ESMA and the NCAs will continue working on the topic.

Further information:

Solveig Kleiveland

Senior Communications Officer

Tel: +33 (0)1 58 36 43 27

Email: press@esma.europa.eu

Press release distributed by Wire Association on behalf of Europa, on May 31, 2022. For more information subscribe and follow us.

Media Assets

Embedded Media

Visit the online press release to interact with the embedded media.

https://wireassociation.eu/newsroom/europa/releases/en/esma-reports-on-supervision-of-costs-and-fees-in-investment-funds-332

Europa

Newsroom: https://wireassociation.eu/newsroom/europa
Website: https://europa.eu/
Primary Email: press@europa.eu

Social Media

Twitter - https://twitter.com/EU_commission
Facebook - https://www.facebook.com/EuropeanCommission
Instagram - https://www.instagram.com/europeancommission/
Linkedin - https://www.linkedin.com/company/european-commission

---