

Intervention by Muriel Faure, Chair of AFG's Innovation Committee, in personal capacity

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1. *Taking into account the far-reaching effects digitalization has in many sectors, including on the financial sector, which is a core driver for the European digital economy, how should European financial authorities make sure that financial institutions can leverage the opportunities of digitalization as to ensure their essential role in financing growth in the EU?*

And also, what measures should be taken to ensure that potential risks arising from the digital transformation of finance are correctly identified and addressed?

And finally, how to re-conciliate consumer protection and security with innovation and competition in future legislations?

We start to witness side effects in the use of robots or algorithms in the suitability requirements under MIFID 2. Robo-advice or algorithms lead retail investors towards low or medium risk products, even when they ask for equity funds, considered a high-risk product, and want to allocate a small portion of their wealth to it.

For some financial institutions, when you are 50-years- old, you cannot have more than 20% in equity in the advised allocation. Currently, a retail investor in its 30-40s, who wants to invest for the first time, therefore with no investment knowledge, will not be allowed to buy an equity product, even for a small portion of its total wealth, because robo-advice will not allow it, and the bank's compliance will respect the decision of its digital tools.

These side effects, in a low interest-rates environment, will lead to very low investment returns in the long run for retail investors. There is an over-protection of the retail investor in the implementation of MIFID 2, leading to fewer resources to finance growth in the EU.

To avoid the concentration of advices on low and medium risk products by the digital tools, financial institutions should have a cartography of their digital tool decision process leading to each category of products they distribute or advice. We are at the 1st generation of such IA tools. Institutions need to improve their tools consequently.

Future legislation should recognize and accept the multiple categories of retail investors and the challenge of protecting and providing decent returns on the long term (more than 10 years).

2. *How can the existing European financial services regulatory framework accommodate and boost the scaling of new innovative business models?*

Should regulatory frameworks of experimentation (the so-called "sandboxes" in the UK) and innovation hubs be leveraged as a tool to foster innovation in financial services? If so, which principles should guide these initiatives and what role should EU authorities play in defining them?

We should not choose between sandboxes, innovation hubs or any other experimental solution. EU countries nurse Fintechs with such innovative tools according to their history and culture. What

counts is that they allow projects to become successful start-ups, then SMEs, and finally champions. What EU should do is to reduce the administrative barriers to do business within the 27 countries, and alleviate tax hurdles.

3. **What can the regulators learn with regards to competition regulation from analogies between the opening up of the telecom operators or the recent legislations changing the banking sector such as PSD2?**

What further competition issues do exist between players from financial services and other digital industries and how to resolve them and how to ensure the development of “European champions”?

What do we want? Consumer protection and low prices or the emergence of European champions in new technologies? Or both? We have a real opportunity to become a leader in DLT.

In the ecosystem, relations with banks are an issue. Flexible regulation on digital intermediaries, i.e. DLT start up, crypto platforms, wallet providers... However, including AML obligations should alleviate banks' responsibilities. Thus, banks will not refuse to open accounts for such start-ups (DLT or crypto assets start-ups). The flexible regulation could be optional, the new players applying for a visa given by a European authority when it seeks to develop its business across the EU, or nationwide otherwise.

4. **What policy initiatives/steps (regulatory or not) should be undertaken by national authorities and/or EU institutions to foster the adoption of enabling exponential technologies (such as cloud technology, Distributed Ledger Technology or Artificial Intelligence)? Does the existing legislative framework hamper or promote sufficiently their adoption?**

In France, to respond to the demand of start-ups in blockchain and crypto assets, an optional regulation is proposed by the government. Start-ups will choose to go for it, and if their application respects the regulatory framework, they will be labelled by the French regulator, AMF. Same for ICOs, a white list of labelled ICO will be published.

Regarding security tokens, if we apply the current regulation applicable to securities, we will not see the emergence of start-ups becoming European champions. One of the reasons is the capital requirement, 25% of operating expenses. Much too high for a start-up, often > 0,5 million €, before they start generating revenues. We need to be more flexible for security token start-ups and ask for insurance or a much lower level of capital requirements, 10% maximum of operating expenses for example.

If we do not do this, there will be no new players in this arena, and incumbents will become the leaders in security token platforms.

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About AFG

The French Asset Management Association (Association Française de la Gestion financière, AFG) is the professional organisation representing the French asset management industry. Asset management is about helping retail and professional investors to provide for their future and achieve other long-term goals. Individuals and organisations entrust their savings to asset managers, who seek to increase their value by investing in the real economy via companies' shares or bonds, government bonds, and infrastructures' assets.

The French asset management sector is the largest in continental Europe: 630 asset management companies employ directly and indirectly 85,000 people and invest on behalf of their clients up to 4,000 billion euros in bonds, shares and other assets. About 50 % of French asset managers commercialise their funds on a cross-border basis, and more than 30 % of the assets managed by our members are issued by corporates or states of the Euro zone (excluding France), which makes our industry a key source of funding for the European economy.

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