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Label First, Evidence Later: ECB's Flawed Premise

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The European Central Bank's recent blog rests on a flawed premise: that size, cross-border activity, and the geographic dispersion of investors are enough to treat large asset managers as systemically risky and to justify a banking-style supervisory and macroprudential response. That is not how systemic risk should be assessed, and it is not how sound policy should be made.

Size Alone Is Not Systemic

Systemic relevance is not a label derived from scale or footprint. It is a conclusion that must be evidence-based—grounded in analysis demonstrating credible transmission channels, mechanisms that reliably amplify stress, and a demonstrated capacity to impair the functioning of the financial system. The ECB blog does not offer that level of analysis. Instead, it leans on descriptive observations about fund flows and investor location and then treats the case for systemic designation as essentially self-evident. For a concept with significant policy implications, the framing is unexpectedly imprecise and insufficiently disciplined.

This matters because it sets a poor precedent for policy debate. If policymakers can move from "large and cross-border" to "systemic" without demonstrating risk transmission, then any successful cross-border market activity can be recast as systemic whenever it becomes convenient. That weakens the credibility of the systemic-risk framework and risks pushing policy toward "fixing" the wrong problems. For European households, that could translate into more constrained product design, higher compliance costs, and fewer competitive cross-border offerings.

The banking analogy at the heart of the ECB's reasoning underscores this concern. Banks can be systemically important because they are leveraged balance-sheet intermediaries. They fund long-term assets with runnable liabilities, engage in maturity transformation, and sit at the core of payment and credit networks. In that model, size can amplify balance-sheet fragilities and spillovers.

By contrast, asset managers operate under a different model. They are agents managing segregated client assets through ring-fenced funds under detailed product regimes such as

UCITS and AIFMD. They do not guarantee liabilities, do not absorb investment losses onto their balance sheets, and do not fail in a manner that disrupts the financial system's core plumbing. Size in asset management is an aggregation across separate funds, not a single leveraged balance sheet whose distress can transmit system-wide.

Funds Didn't Cause the March 2020 Shock

And when the blog looks to March 2020, it conflates the market-wide stress experienced by funds with stress caused by funds. COVID was an exogenous, system-wide shock that stressed multiple markets at once. Central bank actions were broad and aimed at restoring market functioning across the system, not remedying a failure originating in funds. System-wide analysis since then, including the Bank of England's System-Wide Exploratory Scenario exercise, highlights liquidity supply withdrawal and amplification through margin dynamics and leveraged positions elsewhere in the system as key drivers of severe market stress similar to COVID. Funds were navigating stressed markets, not causing them.

The more relevant lesson from the post-COVID period for open-end funds is the value of targeted, evidence-led reforms, not a broad macroprudential redesign. Over the past five years, policymakers globally have converged on risk-based measures to strengthen fund resilience, including stronger liquidity risk management, effective liquidity tools, and product-specific reforms where risks are demonstrated, including for money market funds. Those reforms deserve sustained focus and follow-through.

Prioritize Investor-Friendly Reforms

None of this is to deny that Europe faces a real supervisory coordination challenge for asset managers operating across borders. But that challenge will not be solved by rebranding asset managers as systemic. The more immediate barrier to scale and competitiveness is fragmentation in practice, including uneven implementation, national gold-plating, and diverging supervisory expectations that raise costs and complicate cross-border activity. Misapplied macroprudential overlays risk constraining fund choice, increasing costs, and ultimately harming European investors. That is why ICI supports key elements of the European Commission's Market Integration and Supervision Package, which is directionally right in aiming to reduce cross-border frictions, curb gold-plating, and strengthen supervisory convergence.

In that context, supervisory colleges can be valuable as a practical tool to coordinate supervision and support more consistent outcomes across borders. But they should remain just that: a mechanism for supervisory alignment, not a platform for constructing a macroprudential architecture that the evidence does not warrant.

Europe already has a demanding agenda—make the single market work better in practice, reduce fragmentation so funds can scale across borders, and help households move from saving to long-term investing. That requires practical reforms, including less gold-plating, more consistent implementation, and supervisory convergence that delivers consistent outcomes. Casually casting large cross-border asset managers as "systemic" is dangerously distracting from the immediate work that needs to be done.

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