



## Market Integration & Supervision Package (MISP): Asset Management

The Market Integration and Supervision Package (MISP) is an important building block for the success of the Savings and Investment Union (SIU). Its value lies in addressing the practical sources of fragmentation that continue to weaken the EU's cross-border fund market.

Delivering the SIU requires creating the conditions for greater scale, predictability, and innovation, underpinned by a high standard of investor protection. This in turn depends on a regulatory and supervisory framework that supports cross-border activity without adding unnecessary complexity, avoids overlap and inconsistency, and enables EU capital markets to function efficiently and at scale.

Europe does not lack savings. What it lacks are efficient, scalable channels to mobilise those savings into investment through regulated funds. Fragmentation, gold-plating, and inconsistent supervisory practices continue to raise costs and weaken the fund passport in practice. By reducing these barriers, the MISP can play a pivotal role in supporting a more integrated Single Market and advancing competitiveness, simplification, and consistent implementation across Member States.

Asset management is central to this agenda. Through regulated fund structures such as UCITS, the industry plays a key role in pooling household savings and channelling them into long-term investment, supporting retirement outcomes, capital formation, and economic growth across the EU.

The success of the MISP should be judged by whether it meaningfully reduces fragmentation, improves the practical functioning of the cross-border fund market, and encourages greater retail participation in long-term investing.

### ICI targeted recommendations

#### **Recommendation 1 — Preserve and strengthen reforms that reduce gold-plating and supervisory divergence.**

For the asset management industry, it will be critical to preserve and reinforce the package's most practical measures to reduce national add-ons, constrain divergent supervisory practices, and make cross-border fund distribution more predictable and cost-effective.

**Recommendation 2 — Recalibrate the proposed annual review into a structured, ongoing convergence mechanism.**

Instead of a narrow, entity-focused review of a limited number of firms, the MISIP should establish a structured, ongoing mechanism for supervisory convergence across the asset management sector. Facilitated by ESMA and involving the relevant home and host NCAs, this mechanism should provide a more holistic view of supervisory outcomes and practices across Member States, helping to identify persistent divergence and, where warranted, informing more targeted follow-up in specific areas or at specific firms. By improving supervisory visibility of asset management entities and funds across jurisdictions, it would support more proportionate and resource-efficient oversight by NCAs while reinforcing evidence-based supervisory approaches and convergence across the EU.

**Recommendation 3 — Strengthen ESMA’s role as a convergence facilitator while preserving clear NCA responsibility.**

ESMA should play a stronger role in promoting supervisory convergence through structured cooperation, data-sharing, peer comparison, and escalation where needed, without becoming a direct decision-maker on firms, products, or funds. Responsibility for day-to-day supervision should remain with NCAs. As outlined in Recommendation 2, a recalibrated Annual Review mechanism could give ESMA a practical means to support more consistent supervisory outcomes across the EU asset management sector.

**Recommendation 4 — Remove the “EU Group” concept from the MISIP to preserve a proportionate, evidence-based approach to delegation and maintain neutrality across asset management company operating models**

The delegation framework under UCITS and AIFMD, which enables asset managers to organise expertise and resources on a cross-border basis, should continue to be assessed by reference to the characteristics of the delegation arrangement rather than to legal structure or geographic location. As proposed, the “EU group” construct could create unintended consequences such as an unlevel playing field among asset management operating models.

**Deeper Dive****Recommendation 1: Preserve and Strengthen Reforms That Reduce Gold-Plating and Supervisory Divergence**

For the asset management industry, the most consequential elements of the MISIP are those that reduce national gold-plating and supervisory divergence. These are the reforms most likely to

improve the practical functioning of the Single Market for funds and to deliver tangible benefits for both firms and investors.

National add-ons continue to undermine the effectiveness of the Single Market. Additional approval requirements, enhanced disclosure obligations, duplicative reporting, and stricter local presence requirements create fragmentation in practice by increasing compliance and operational costs, delaying fund launches, and forcing firms to tailor products on a jurisdiction-by-jurisdiction basis. The cumulative effect is to make cross-border funds more costly and less efficient, ultimately to the detriment of investors.

ICI research underscores the investor impact of this fragmentation. UCITS distributed across borders tend to have higher ongoing charges than single-market UCITS, due in part to the cumulative burden of national add-ons. Those additional costs reduce net returns and can discourage retail participation, contrary to the broader objectives of the SIU.

Measures that reduce discretion points and constrain divergent supervisory practices are therefore especially valuable. They improve predictability, support economies of scale, and strengthen the practical value of the UCITS passport. In doing so, they help make the EU fund market more efficient and competitive.

In particular, the MISP would make meaningful improvements by moving certain cross-border marketing and notification provisions from UCITS and AIFMD into the Cross-Border Distribution of Funds Regulation (CBDFR). These changes would reduce divergences in national transposition and limit host-state gold-plating that weakens the passport in practice.

It is critical to preserve the provisions of the MISP that shift the following articles to the CBDFR:

#### UCITS

- Chapter XI (UCITS marketing rules): covers notification and marketing of UCITS across Member States
- Article 97(3) (Home/Host Competency): division of supervisory competence between home and host authorities
- Article 98(3) and (4) (Host Member State powers): supervisory and enforcement powers of the host Member State
- Article 108 (Cooperation between authorities): cooperation and exchange of information between competent authorities

## AIFMD

- Article 30a (Pre-marketing): sets out the rules for pre-marketing EU AIFs to professional investors
- Article 31 (Marketing to professional investors in the home Member State): governs how EU AIFMs market EU AIFs domestically
- Article 32 (Marketing to professional investors in other Member States): sets out the passport for cross-border marketing within the EU
- Article 32a (De-notification): rules for stopping marketing of an AIF in a Member State
- Article 45 (Host Member State powers): defines what the host Member State can supervise and enforce for AIFs marketed in its territory

The MISP also amends UCITS Articles 6, 7, 29, 39, 45, 51, 52, 53, 54, 55, 56, 57, 69 and 83; and AIFMD Articles 6, 7, 9, 21, 22, 29 AIFMD, changing “may” to “shall” in order to remove national discretion and drive better convergence.

Taken together, these reforms are central to improving how the Single Market for funds operates in practice. By constraining national gold-plating and supervisory divergence, the MISP can support greater scale, lower costs, and strengthen the effectiveness of the UCITS and AIFMD passports, thereby helping to deliver tangible benefits for investors and advance the objectives of the SIU.

### **Recommendation 2: Recalibrate the Annual Review as a Structured, Ongoing Mechanism for Supervisory Convergence**

The Commission is right to identify supervisory fragmentation as a central obstacle to a more effective Single Market for funds. However, the proposed annual review is too limited, in both scope and design, to address the problem in a meaningful way. A review focused on a small number of asset management firms would not provide ESMA or NCAs with a sufficiently complete picture of how supervisory divergence arises in practice, how it affects cross border fund activity, or where it creates the greatest barriers to scale and efficiency in the Single Market.

A more effective approach would be to redesign the review as a structured, ongoing mechanism for supervisory convergence: a standing collaboration platform facilitated by ESMA and involving the relevant home and host NCAs. This should not operate as a one-off or a primarily retrospective exercise, but as a practical mechanism for continuous supervisory dialogue, peer comparison, and early identification of divergent practices.

Such a mechanism would pursue the same policy objective as the Commission’s proposal, but in a way that is more operational, more responsive, and better aligned with how fragmentation

actually emerges in the EU fund market. In practice, fragmentation does not arise simply because certain firms are large or active across borders. It arises where EU rules are interpreted or applied differently across Member States, particularly in areas such as authorisation, cross-border distribution, marketing requirements, and ongoing supervision. This redesigned approach to the Annual Review would allow authorities to compare supervisory approaches and outcomes across these areas, identify divergence at an earlier stage, and address it before it hardens into a structural barrier to cross-border activity.

It would also support more effective use of industry data collected under UCITS and AIFMD consolidated reporting frameworks, helping to strengthen transparency, mutual trust, and cooperation among supervisors.

This approach targets the real source of fragmentation which is not the existence of particular firms, but inconsistent supervisory outcomes across Member States.

#### Concrete benefits of this redesign

##### *A. A more holistic, outcomes-focused and evidence-based view of the market*

The redesigned mechanism would enable ESMA and NCAs to make more effective use of data already collected and shared under UCITS and AIFMD frameworks, covering both management entities and funds. This is key to developing a broader EU-wide view of asset management activity, including fund authorisation, distribution, and cross-border operations. It would also improve visibility into how rules are being applied in practice across jurisdictions and create a more structured, evidence-based foundation for supervisory discussion.

By making supervisory approaches more transparent and comparable, the mechanism would help foster a stronger culture of cooperation among authorities. It would also reinforce ESMA's role as a facilitator of convergence, coordination, and data sharing, rather than as a parallel supervisor. This broader horizontal market-wide perspective does not fully exist today and would not be achieved through the current approach set forth in the Annual Review.

##### *B. A more effective focus on barriers to market functioning*

The redesigned review would allow supervisory attention to be directed toward the issues that matter most for market functioning and investor outcomes. Rather than concentrating on a pre-selected group of firms (e.g., largest cross-border asset management firms), it would enable authorities to identify barriers where they actually arise, for example in delayed authorisations, inconsistent marketing requirements, divergent passporting practices, or other supervisory approaches that increase costs and reduce efficiency for cross-border funds.

It would also allow for more effective use of entity- and fund-level data collected from firms across the sector, giving ESMA and NCAs a stronger basis for assessing supervisory practices in such areas as organisational structure, resource allocation, and risk management systems.

The redesigned Annual Review could become a more practical and forward-looking exercise focused on supervisory outcomes and efficient market functioning, rather than a periodic compliance review focused on a fixed set of entities.

### *C. A clearer and more proportionate escalation framework*

The redesigned mechanism should also be supported by clear escalation pathways.

Where persistent supervisory divergence cannot be resolved through dialogue, ESMA should be able to escalate the issue through its Breach of Union Law powers. ICI supports strengthening these powers where necessary. At the same time, the Commission should continue to play its essential role in ensuring the correct and consistent implementation of EU law. A structured convergence mechanism would provide the transparency and evidence base needed to support that enforcement function.

Where the redesigned mechanism identifies risks or frictions concentrated in particular activities, products, or structures, ESMA should also be able to recommend more targeted follow-up by the relevant authorities. This would be more flexible and proportionate than automatically reviewing the largest 10 to 15 firms each year, and would better direct supervisory attention to areas of genuine concern rather than placing a disproportionate weight on firm size alone.

### **Recommendation 3: Strengthen ESMA's Role as a Convergence Facilitator While Preserving Clear NCA Responsibility**

Supervisory convergence does not require centralising supervisory authority. Although the EU fund regime is harmonised in certain respects, asset management continues to operate through national legal systems, market structures, and supervisory frameworks, including in such areas as investor protection, taxation, labour, and conduct rules. Clear supervisory responsibility should therefore remain with the national authorities.

Within the redesigned framework, ESMA's role can and should be strengthened, but in a clearly bound manner. ESMA should facilitate cooperation among NCAs, improve supervisory data-sharing, and support a more holistic view of industry activity through the collaboration platform.

Additionally, ESMA should play a stronger role in identifying and documenting divergent supervisory practices, recommending actions to reduce those divergences, and promoting more consistent use of its existing convergence tools, including guidelines, Q&As, peer reviews,

mediation, and breach of Union law procedures. In this way, ESMA will take a leading role in supporting data-driven and outcomes-based supervision.

However, ESMA should not make determinative decisions for asset management firms, funds, or market activities related to the distribution of funds across the EU. That would blur lines of supervisory responsibility, weaken the authority and accountability of NCAs, and risk adding an additional layer of review without addressing the underlying sources of fragmentation. It could also delay time to market, create uncertainty around product development and distribution, and ultimately reduce the responsiveness and competitiveness of the EU fund market.

The MISP should reflect this institutional balance. Therefore, provisions that would give ESMA direct, determinative authority over market participants or fund-related activities should be deleted from the legislative text, including Articles 17aa, 17aaa, and 19 of the ESMA Regulation, Article 110d of the UCITS Directive, paragraph 4 of Article 110c of the UCITS Directive, and Articles 14c, 14d, and 14e of the CBDFR.

A model based on NCA-led supervision, supported by stronger EU-level convergence, coordination, and escalation, is the most effective and practical way to strengthen the Single Market for funds while preserving both competitiveness and investor protection.

**Recommendation 4 – Remove the “EU Group” concept from the MISP to preserve a proportionate, evidence-based approach to delegation and maintain neutrality across asset management company operating models**

To deliver the MISP’s objectives of deeper market integration and a more efficient cross-border supply of capital, the delegation framework under UCITS and AIFMD, which enables asset managers to organise expertise and resources on a cross-border basis, should continue to be assessed by reference to the characteristics of the delegation arrangement rather than to legal structure or geographic location. The existing framework supports efficient cross-border fund management and delegation arrangements that underpin EU capital markets, while preserving strong investor protection through proportionate supervisory oversight. The proposed introduction of an “EU group” concept in Article 4(1) AIFMD and Article 2(1) UCITS would disrupt this well-functioning framework and should therefore be deleted from the proposal.

Supervisory assessment should focus on the substance of the delegation arrangement, including the nature of the delegated activity, the effectiveness of governance and control frameworks, and the ability of the management company or AIFM to oversee the delegate. This allows oversight to be calibrated on the basis of evidence and outcomes rather than legal form or geographic location.

Intra-group delegation is a particularly important area in which this approach should be preserved. Such arrangements often present different characteristics from third-party delegation, reflecting closer alignment of interests, shared governance and control frameworks,

integrated systems, and greater transparency and access to information. Existing supervisory practice already allows these features to be taken into account in a proportionate manner. This allows supervisors to focus more closely on arrangements that present greater complexity, risk, or more challenging oversight and control considerations.

By contrast, the proposed “EU group” definition introduces a formal distinction based primarily on group structure and geographic location. This does not reflect how the majority of European asset management groups are organised or how delegation arrangements are supervised in practice. It would shift supervisory attention away from the substance of the delegation arrangement, including governance, oversight, and control, toward where functions are located within the group. Delegation under UCITS and AIFMD should instead continue to be assessed by reference to those characteristics so that the supervisory practices remain proportionate, evidence-based, and consistent across the Single Market.

It is also essential that the framework remains neutral as to how firms organise themselves. Asset managers operate through a variety of models, including proprietary management companies, third-party ManCo arrangements, and MiFID-based structures. There is no single structure that is inherently better than another. Decisions on where to locate key functions are shaped not only by business considerations, but also by material external constraints such as national tax regimes, labour law, and local substance requirements, which often limit firms’ ability to consolidate functions across group entities. A framework that implicitly privileges certain business models over others would not create better supervision but would distort competition and undermine a level playing field.

In practical terms, the proposed “EU group” concept could force many firms to restructure well-functioning arrangements simply to align with an EU-specific definition. That would impose additional cost and operational complexity without improving the quality of governance, oversight, or control. Those costs would not stop with firms. They would ultimately be passed on to investors through reduced product choice, less innovation, and higher fees hindering the ability of firms to scale and operate efficiently across EU borders.

Deleting the “EU group” concept from the proposal would avoid this unnecessary complexity and preserve efficient cross-border fund management and delegation arrangements. It would also keep the focus where it belongs: on how delegation works in practice, not on legal categorisation. That is the approach best aligned with the MISP’s objectives of market integration, supervisory efficiency, and the effective channeling of savings into investment opportunities across the EU.