EFAMA

European Fund and Asset Management Association

ASSET MANAGEMENT SUPERVISION

WHY PASSPORTING REMAINS THE BEST SUPERVISORY MODEL FOR EUROPE

OCTOBER 2025

INTRODUCTION

The Draghi and Letta reports rightly emphasise that vibrant capital markets are essential to Europe's future well-being, as they facilitate the supply of capital to growing businesses, all while offering citizens opportunities to invest their savings towards long-term goals. These reports recommend a series of bold measures to jumpstart European capital markets. As part of these, the Commission committed, in its Savings & Investments Union (SIU) Action Plan, to explore centralised supervision for market participants with a significant cross-border presence. For large cross-border asset managers specifically, the Commission floated three alternative models that could disrupt the current passport-based supervisory regime: supervisory colleges, joint supervisory teams, and direct ESMA supervision.

In contrast with other financial sectors, asset managers already benefit significantly from the EU/EEA Single Market as they can distribute investment funds cross-border through the UCITS and AIFMD passports. These passports allow asset managers to operate in other Member States while primarily supervised in their home country. Over time, this passporting regime has served the European asset management industry well, supporting the growth of assets under management (particularly in UCITS funds). This major success for the Single Market is particularly evident from the marked growth in cross-border funds (as illustrated on page 5).

Despite this, there remain barriers that hamper the proper functioning of the EU fund passporting and distribution regime. These include national rules which have not been harmonised at EU level (e.g. company, contract and insolvency laws), 'gold-plating' of EU regulations by national authorities (e.g. additional reporting requirements), as well as home bias of national distribution models and related tax incentives. Centralised supervision would not address these challenges because these barriers are grounded in national rules and cultural differences rather than in supervisory divergence.

Prominent international organisations also share these concerns regarding supervisory centralisation (see box below).

"(...) it is important to recognize that centralizing supervision will not of itself create the CMU, and that risk from a poorly planned or implemented transition could be material. In particular it is important that centralizing supervision is carefully sequenced to ensure that the capacity and resources from day-to-day supervision are not diverted. The difficulties of striking the right balance on distribution of supervisory responsibilities and ensuring that adequate levels of expertise and resources are available where most needed to effectively manage risks should not be underestimated. There is also a risk that in focusing on centralizing supervision which may appear a more achievable goal, political capital is expended that could be deployed on addressing other barriers to integration or risk areas." - International Monetary Fund: "Euro Area: Publication of Financial Sector Assessment Program Documentation-Technical Note on Capital Markets Union – Implications for Supervision and Institutional Arrangements.", 25 July 2025.

As a result, to avoid disrupting a supervisory model that has significantly contributed to building the Single Market for investment funds, **asset managers – both cross-border and national – are keen to preserve the current passport-based supervisory regime (subject to strengthened supervisory convergence) and strongly recommend prioritising SIU policy initiatives that have the potential to**

scale up EU capital markets and boost retail investments. These include developing supplementary pensions, simplifying the investor's journey, providing adequate tax incentives, and improving financial literacy.

In this paper, we:

I. Outline why centralised supervision of (large) asset managers would not contribute to SIU objectives, nor better supervisory outcomes; and
II. Recommend targeted improvements to foster supervisory convergence and better data sharing among supervisors.

In the appendix, we:

I. Present the alternative supervisory models that the Commission identified in its April 2025 targeted consultation on the integration of capital markets;
II. Define the criteria underpinning quality supervision in the asset management sector; and
III. Compare the Commission's alternatives with the existing system, showing that the current passport-based supervisory regime remains the most appropriate.

SUPERVISION OF ASSET MANAGERS

EFAMA wholeheartedly supports the objectives of the SIU and calls for bold and urgent policy actions to increase retail investments and improve the functioning of EU's capital markets. Due to the cross-border nature of their activities, asset managers also stand to gain from stronger supervisory convergence and the removal of obstacles to cross-border fund distribution.

That being said, **centralised supervision of (large) asset managers will not enhance the quality of supervision or channel more savings into investments – regardless of whether it is through ESMA supervision, joint supervisory teams, or supervisory colleges.** It would also distract policymakers from more pressing priorities.

The current supervisory regime is tailored to asset management

The current supervisory regime for EU asset managers, primarily shaped by the UCITS and AIFMD frameworks, provides a regulatory structure that is both tailored to the specificities of the asset management business and built upon the EU's well-established passporting regime.

Recognising that asset managers act as agents on behalf of investors rather than as principal risk-takers, the regime imposes proportionate requirements in areas such as risk and liquidity management, transparency and investor protection. **The current regime therefore recognises that asset managers are not banks**: Europe's approach to banking supervision was specifically designed for very homogenous institutions that take on balance sheet risks. **This model is not suitable for the asset management industry, which is more diverse and where managers invest on behalf of clients rather than deploying their own capital.** Asset management requires the primary supervisory focus to be managers' conduct and product oversight. This is most effectively performed at the national level by authorities with deep expertise in local market conditions and sensitivity to national specificities (e.g. product markets, investor base and distribution models, to name only a few).

Moreover, the current supervisory model also enables asset managers authorised in one Member State to operate freely across the EU. Asset managers can indeed distribute investment funds cross-border through the UCITS and AIF product passports and open offices in other Member States by relying on the UCITS/AIFMD management company passport. **Such a regime is particularly adapted to the distribution model in asset management, where the product passport plays a prominent role.** Asset managers are in fact 'product manufacturers' that rely on intermediaries, including banks, insurance companies, advisors, and investment platforms to distribute their products (i.e. investment funds). Unlike these intermediaries, **asset managers do not necessarily need to establish branches or subsidiaries to access clients in other Member States.** It is these intermediaries that acting as local distributors will use their existing distribution channels to market the funds in one or more given Member States. In addition, EU funds comply with the UCITS and AIFMD Directives, which ensure that all funds meet minimum regulatory standards and can be sold directly to clients or through unit-linked insurance plans across the EU without requiring any adjustments to the product per se. Deposit accounts and insurance policies, on the other hand, are developed and offered in line with local requirements (e.g., local tax exemptions) and are less 'passportable' for clients in other Member States.

Lastly, the current framework has proven to be robust on multiple occasions, especially in adapting and functioning efficiently during periods of market stress and volatility without significant supervisory or market failures. In other words, there is no demonstrated evidence of systemic shortcomings or structural weaknesses to justify a major overhaul of the existing supervisory regime.

Other supervisory models will not achieve better supervision

Despite claims that centralised supervision is a prerequisite for building a Single Market, a close comparison of the European Commission's three supervisory alternatives indicates that **the current passport-based regime remains the most suitable supervisory model for the asset management sector.** As outlined in more depth in the appendix, each alternative faces major shortcomings, which disqualify them as credible models for the asset management sector:

- **Shortcoming #1:** Beyond the fact that **ESMA** lacks the necessary resources and expertise to supervise (large) cross-border asset managers effectively, this approach would inevitably split supervision into two: the supervision over the management company would migrate to the EU level, while the product supervision would remain at the national level. Management companies would in any event still be subject to national laws for their group operations (e.g. corporate law, contract law, insolvency law, and tax law) and therefore fall under some form of national supervision for these operations.
- **Shortcoming #2: Joint supervisory teams** would not perform any better because they would blur supervisory responsibilities. Where each national supervisor is currently responsible for specific tasks, those in joint teams would be responsible for overseeing the entire group operations of the asset manager. This would delay the decision-making process due to different national sensitivities, negatively impacting asset managers' ability to respond to market demands (e.g. by launching new funds). Lastly, it is far from certain that these joint teams will result in greater supervisory convergence. Supervisory outcomes still risk diverging depending on the composition of each team.
- **Shortcoming #3: Supervisory colleges** face similar challenges because they would make decisions regarding the asset manager's group operations while national supervisors remain responsible for their current supervisory tasks. Like for joint supervisory teams, supervisory colleges will inevitably delay the decision-making process, negatively impacting asset managers and risking divergence depending on each college's composition.

These three alternatives would inevitably result in ESMA and/or national supervisors needing greater resources, which would be funded by the EU budget, national supervisors' budgets, or, more likely, increased supervisory fees levied from market participants (increasing operational burdens and potentially reducing their competitiveness).

	Effective decision making	Sufficient resources	Necessary expertise	Streamlined supervisory cooperation	Fit for purpose
Current passporting regime	YES	YES	YES	PARTLY	YES
Direct ESMA supervision	NO	NO	NO	PARTLY	NO
Joint supervisory teams	NO	NO	YES	PARTLY	NO
Supervisory colleges	NO	PARTLY	YES	PARTLY	NO

See the appendix on pages 8-12 for more detail on these metrics

Supervisory divergences are not the primary cause of market fragmentation

Divergences in the way national supervisors interpret common EU standards do complicate cross-border asset management operations, however they are not the primary cause of market fragmentation. Experience shows that the main obstacles to the smooth functioning of the Single Market for funds and asset managers have more to do with divergences in local (non-EU) rules (such as local marketing requirements and tax provisions), sometimes motivated by national protectionism, and local market differences (such as different domestic investor bases, national attitudes to investment risks, market practices, languages and general investment culture).

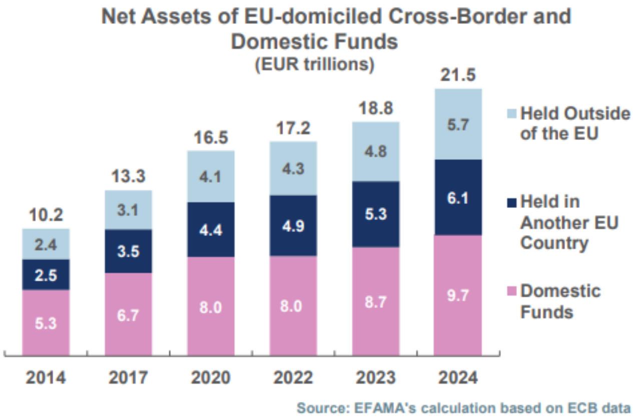
The main barriers that need to be removed are linked to entrenched national divergences in substantive requirements, rather than to supervisory practices. These include:

- Reporting obligations, including statistical and tax reporting formats;
- Marketing rules, including pre-approval of materials, translation requirements, inconsistent SFDR application, and national sustainability labels;
- Operational constraints, including divergent treatments of fractional shares and omnibus accounts; and
- Varying registration fees and inconsistent approaches to marketing AIFs, particularly to semi-professional and retail investors

These divergences often force asset managers to design bespoke national operations and maintain jurisdiction-specific product ranges, increasing costs and preventing them from fully benefiting from the Single Market.

Cross-border distribution of funds is already growing

Compared to other financial products and services, it is worth noting that the Single Market for investment funds, despite the above challenges, has come a long way, exhibiting a growing degree of **cross-border distribution for its products and services.** It has grown at a steady pace, even without centralised supervision. In fact, in the course of the last decade, funds sold in another Member State outside their domicile ('cross-border funds') have gradually gained market share against locally domiciled funds ('domestic funds'). The former have grown 30% faster than the latter. We expect this trend to continue in the future, even in the absence of regulatory reforms.[1]



Retail participation should be the priority

To further enhance the integration of the Single Market for investment funds, greater retail participation is necessary. Increased retail investments are also sorely needed from a broader societal perspective, i.e. by channelling more of individuals' wealth to cater for their long-term retirement needs in a future where state-sponsored national pension schemes will be less generous.

Against this backdrop, it is essential to keep in mind that **the main barriers to substantially increasing retail investments in the EU are unrelated to supervisory divergences.** It is primarily risk aversion and a lack of financial literacy among ordinary citizens that lead them to keep their savings in deposit accounts. This lack of investment culture in Europe is compounded by the fact that savers are often discouraged from investing because policymakers and regulators emphasise the potential risks more than the benefits of investing. This is evident at the EU level in the 'Retail Investment Strategy', where proposals have complicated the investor's experience by imposing excessive onboarding and disclosure requirements.

To genuinely make a difference, **policymakers should prioritise those initiatives most likely to channel more savings into investments.** Time-consuming discussions on the supervisory centralisation of (large) asset management companies would miss the mark. Recent months have shown that the debate about a potential overhaul of the current supervisory model is highly divisive politically, as it touches upon sensitive issues of national sovereignty. In the absence of any evident market failure, several Member States and MEPs have already voiced their opposition to transferring new supervisory powers directly to ESMA, joint supervisory teams, or supervisory colleges.

As a result, **opening such a debate risks becoming a significant distraction**, diverting essential resources from the more impactful actions highlighted in the previous section and undermining the current political momentum behind the SIU.

[1] Please refer to the EFAMA 2025 Fact Book for a more complete overview (particularly pp. 60-64). Over the last decade cross-borders funds have gathered assets at a faster pace than local funds, however this general trend may vary from one year to the other and from one country to the other.

RECOMMENDATIONS TO IMPROVE SUPERVISION

While the current passport-based supervisory regime for asset managers remains the most appropriate, it would nevertheless benefit from some targeted improvements. The recommendations outlined below aim to strengthen supervisory convergence and mitigate market fragmentation without necessitating a fundamental reform of the existing framework.

- **Address barriers to cross-border fund distribution through effective convergence actions:** ESMA should enhance the effectiveness of its existing supervisory convergence toolkit, including peer reviews, Common Supervisory Actions (CSAs), breaches of Union law, etc. For example, ESMA could conduct a peer review on fund passporting, focusing on periodic reporting, country-specific disclosures, supervisory fees charged by national supervisors, and local presence requirements. Following this peer review, ESMA could issue guidelines on supervision to address instances of unjustified 'gold-plating'.
- **Develop better supervisory convergence tools:**
  - ESMA should be given **'no-action letter' powers** with sufficient legal force, as is the case for the US SEC.
  - Considering their *de facto*, quasi-binding nature, ESMA should give the industry greater predictability on **when Q&As will be updated**. ESMA should also **consult the industry** in instances where the proposed changes amount to *de facto* policy decisions.
  - ESMA should ensure that **Common Supervisory Actions (CSAs)** are coordinated correctly in terms of timeline and content. It is also essential that national supervisors align their activities with the priorities they agree upon at the ESMA level. Too often, CSAs supplement national supervisory initiatives rather than substitute for them. This results in an increase rather than a decrease in the supervisory burden for asset managers in those Member States.
- **Create an integrated reporting framework for UCITS and AIFs alongside a joint supervisory data space for capital markets:** ESMA should ensure that asset managers report the same supervisory information across the EU and ensure proper data sharing across public authorities, including European Supervisory Authorities (ESAs), ECB, national supervisors, and national central banks. Asset managers currently provide multiple authorities with extensive information on their activities, which is rarely standardised and shared adequately between these authorities. An integrated reporting framework and ambitious data-sharing arrangements would enable national supervisors to become more effective, while also reducing the reporting burden on asset managers.
- **Give the ESAs an explicit competitiveness mandate:** As is the case for the European Commission, competitiveness should be a specific mission for the ESAs, alongside investor protection, orderly financial markets, and financial stability. This has already been done in leading international financial domiciles, including the US, UK, Japan, and Singapore. While consulting on regulatory proposals, the ESAs should systematically organise industry workshops and conduct impact assessments with greater involvement of market experts. This approach would ensure that new proposals are better grounded in market realities and result in a more predictable legal environment, thereby protecting the EU industry from global competitive pressures.

APPENDIX

What are the alternative supervisory models under consideration?

In its April 2025 targeted consultation on the integration of capital markets, the European Commission identified several alternative supervisory models for large cross-border asset managers:

1. **A direct ESMA supervision**, entailing the European authority taking over supervisory responsibilities from NCAs;

2. **Joint supervisory teams**, entailing a split supervisory responsibility among several supervisory authorities, while entrusting ESMA with the coordination role; and

3. **Supervisory colleges** chaired by an NCA or ESMA, which would complement the passport-based supervisory regime, ensuring that critical supervisory decisions are collectively taken by the authorities supervising large cross-border asset managers.

What does quality supervision look like in the asset management sector?

To assess the merits and value-added of alternative supervisory models and determine whether they would lead to better outcomes than the existing one, it is essential to outline the criteria defining what quality supervision looks like in the asset management sector.

These criteria include:

- **Effective decision-making:** The decision-making process should be robust but sufficiently streamlined and predictable to ensure that (fund) authorisations are granted without undue delay, guaranteeing a short time to market.

- **Sufficient resources:** Supervisory authorities should have enough human and operational resources to oversee the asset managers and funds established in their jurisdiction. This includes having staff with different professional profiles and sufficient operational capabilities (including IT) to perform all tasks required from a market supervisor, including market analyses, consumer testing, authorisations and ongoing supervision, on- and off-site inspections, enforcement actions, etc.

- **Necessary expertise:** Supervisory authorities should understand the different investment strategies and management techniques (including the more complex and innovative ones) offered by asset managers established in their jurisdiction and the various EU and national requirements that apply to these firms and the products and services they offer.

- **Effective supervisory cooperation:** Considering that asset managers operate a cross-border business, effective supervisory cooperation is essential. ESMA should create an environment where NCAs can define common priorities, compare potential varying practices in their supervisory practices (including different interpretations of common regulatory standards), agree and carry out common supervisory actions consistently, etc. Accompanying these efforts, NCAs and ESMA must share among themselves supervisory data reported by the supervised management companies, enabling a more ‘risk-based’ approach to supervision in the future.

- **Fit for purpose:** The supervisory setup should be tailored to the specificities of the investment management sector (e.g. asset management is an agency-based business model) and the public policy objective(s) being pursued (e.g. achieving the Single Market, fostering competitiveness of EU market participants, improving investor protection and financial stability).

How do alternative supervisory models perform against these criteria?

Based on the above criteria, a comparison with the three supervisory models identified by the European Commission clearly shows that the current passporting regime, although perfectible, remains the most appropriate supervisory model for the asset management sector.

We score the Commission's supervisory models against the five quality supervision criteria that we have previously highlighted as follows:

Effective decision-making	
Current passporting regime	**YES** ✓ Robust, tried and tested, decision-making processes are in place at the NCA level, building on decades of experience and jurisprudence. ✓ A single NCA (home supervisor) makes all decisions, ensuring shorter time to market and avoiding potential conflicts of competencies or undue political influences.
Direct ESMA supervision	**NO** ✓ ESMA has no experience with direct supervision of asset managers. It would take time and considerable effort to implement the necessary processes to ensure robust decision-making and targeted, risk-based supervision.
Joint supervisory teams	**NO** ✓ Multiple NCAs make decisions, which could potentially complicate, lengthen, and politicise the supervisory decision-making process. ✓ It could also blur supervisory responsibilities between the various authorities involved.
Supervisory colleges	**NO** ✓ Multiple NCAs make decisions, which could potentially complicate, lengthen, and politicise the supervisory decision-making process, deteriorating time to market and potentially leading to suboptimal or overly conservative decisions.

Sufficient resources	
Current passporting regime	**YES** ✓ NCAs are typically well-equipped in terms of experienced staff and other resources to perform their supervisory roles over asset management companies. ✓ Many NCAs have invested sizeable amounts in technologies (AI, data analysis, ...) in recent years to support and improve their risk-based supervision processes.
Direct ESMA supervision	**NO** ✓ ESMA would need to hire dozens, if not hundreds of staff to reach the level of expertise currently available in the most sophisticated NCAs and be able to supervise large asset management companies effectively. ✓ This alone would require a considerable increase in financial resources, unlikely to be matched by a corresponding decrease in the financing needs of NCAs. ✓ It would inevitably translate into higher contributions from the EU budget, NCAs, or, more likely, into increased supervisory fees levied from market participants (which would deteriorate their competitiveness).
Joint supervisory teams	**NO** ✓ ESMA would need to hire additional staff to lead supervisory teams. ✓ Supervisory teams are more resource-intensive for NCAs because each must participate in supervising the entire group's operations. ✓ As a result, this model would inevitably translate into higher contributions from the EU budget, NCAs, or, more likely, into increased supervisory fees levied from market participants (which would deteriorate their competitiveness). This is notably the case in the SSM. The ECB supervisory fees now amount to more than EUR 600 million, in addition to the fees that national authorities continue to levy on the industry for the

	supervisory activities still conducted at the national level (incl. reporting, inspection, enforcement, and other support provided to the ECB).
Supervisory colleges	**PARTLY** ✓ Colleges are more resource-intensive for NCAs because each must participate in the decision-making process for the entire group's operations. As a result, the industry will have to pay higher supervisory fees to NCAs. ✓ This will also entail more resources being spent by the industry to respond to the colleges' queries.

Necessary expertise	
Current passporting regime	**YES** ✓ NCAs developed over time the necessary expertise to stay on top of market developments and innovations in their jurisdiction. ✓ In-depth knowledge of local environment (market players, investment preferences, language, local rules, ...).
Direct ESMA supervision	**NO** ✓ It would take years for ESMA to build from scratch the expertise needed to adequately supervise large asset management companies across a wide diversity of asset classes and investment strategies. ✓ ESMA will not be able to match national supervisors in understanding the local environments (including national rules) in which asset managers operate.
Joint supervisory teams	**YES** ✓ NCAs developed over time the necessary expertise to stay on top of market developments and innovations in their jurisdiction. ✓ In-depth knowledge of local environment (market players, investment preferences, language, local rules, ...).
Supervisory colleges	**YES** ✓ NCAs developed over time the necessary expertise to stay on top of market developments and innovations in their jurisdiction. ✓ In-depth knowledge of local environment (market players, investment preferences, language, local rules, ...).

Streamlined supervisory cooperation	
Current passporting regime	**PARTLY** ✓ Passporting requires significant cooperation, and the use of ESMA's supervisory convergence tools is currently suboptimal. ✓ ESMA offers a forum for discussions among NCAs, but this is not always sufficient to achieve the desired level of convergence (e.g. ESG fund names). ✓ Data flows up from NCAs to ESMA and other EU agencies; however, data sharing between NCAs is ad hoc and fails to prevent duplicative reporting at the national level.
Direct ESMA supervision	**PARTLY** ✓ Direct ESMA supervision would still require significant cooperation with NCAs to achieve convergence because 1) asset managers would still be subject to national laws, and 2) ESMA's supervisory approach may differ from that of national supervisors (potentially creating a two-speed system between large and smaller asset managers, resulting in an uneven playing field). ✓ Direct ESMA supervision will not lead to increased data sharing.

Joint supervisory teams	**PARTLY** ✓ Joint teams could ensure better cooperation between NCAs when an asset manager operates as a group. ✓ These may slightly improve data sharing within a single supervisory team; however, data sharing would still be ad hoc and unlikely to address reporting duplications.
Supervisory colleges	**PARTLY** ✓ Colleges could ensure better cooperation between NCAs when an asset manager operates as a group, but, in many cases, this outcome could also be obtained for all asset managers via other convergence tools (e.g. through coordination groups). ✓ These may slightly improve data sharing within a college; however, data sharing would still be ad hoc and unlikely to address reporting duplications. ✓ Colleges could also ensure more effective cooperation in crisis situations if their supervised asset managers could call for an ad hoc college meeting to share the same information with multiple NCAs.

Fit for purpose	
Current passporting regime	**YES** ✓ The current supervisory system, based on the passporting regime, has been one of the bedrocks of the considerable success of UCITS and AIFMD for decades. ✓ There have been no substantial supervisory or market failures. ✓ But effective convergence actions are crucial for managing the divergence inherent to this model (e.g. for groups or cross-border funds) – *see our recommendations in the main paper.*
Direct ESMA supervision	**NO** ✓ ESMA supervision could ease supervision for groups that have portfolio or risk management functions spread across several jurisdictions; however, these benefits would likely be offset by the changes asset managers would need to make to their operations (e.g. complying with new interpretations of EU law). ✓ ESMA supervision would not result in single supervision. It would operate a split between the management company's supervision, which would migrate to the EU level, and the product supervision, which would remain at the national level. Asset managers would moreover still be subject to national laws for their group operations (e.g. corporate law, contract law, insolvency law, and tax law) and therefore subject to some form of national supervision for these operations. ✓ Cross-border fund barriers would not be removed as these are anchored in national law rather than supervisory divergence.
Joint supervisory teams	**NO** ✓ Supervisory outcomes may differ from one team to another depending on their compositions. ✓ They will also result in divergent treatment between asset managers under their supervision and the others (uneven playing field). ✓ Cross-border fund barriers would not be removed as these are anchored in national law rather than supervisory divergence.
Supervisory colleges	**NO** ✓ Supervisory outcomes may differ from one college to another depending on their compositions. ✓ They will also result in divergent treatment between asset managers under their supervision and the others (uneven playing field). ✓ Cross-border fund barriers would not be removed as these are anchored in national law rather than supervisory divergence.

ABOUT EFAMA

EFAMA is the voice of the European investment management industry, which manages about 34 trillion of assets on behalf of its clients in Europe and around the world. Its membership consists of 29 national associations, 52 global asset managers, and 24 associate members. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors.

Besides fostering a Savings & Investments Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities. EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book.

More information is available at www.efama.org

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