ESMA receives mandate on fund performance from European Commission

The request supports the action, included in the EC's Mid Term Review of the Capital Markets Union of 8 June 2017, on recurrent reporting by the ESAs of cost and performance of the main categories of retail investment, insurance and pension products.

ESMA will now embark on a large-scale study assessing the reporting of costs and past performance of retail investment products, in order to increase investors' awareness of the net return of these products, and the impact of fees and charges. The implementation of MIFID II and PRIIPS, which will both increase the transparency on costs and charges, provide the right framework for such a study. For securities markets it will initially focus on the costs and performance of UCITS funds. In that context, it will also examine the differences between active and passive investing, and the impact on costs and charges, and long-term return.

The work will contribute to the objective of the CMU Action Plan to foster the participation of retail investors in capital markets by supporting the assessment of the net return of retail investment products and the impact of diverse fees and charges.

ESMA has recently published an article in its latest *Trends, Risks and Vulnerabilities No.2 2017* on *The impact of charges on mutual fund returns* which included a preliminary analysis of the impact of ongoing fees, one-off charges and inflation on the returns of mutual funds, ahead of the EC mandate.

The impact of charges on mutual fund returns

ESMA carried out a first analysis on fund performance measures, developing initial metrics to analyse the impact of ongoing fees, one-off charges and inflation on the returns of mutual funds. Key preliminary results for the EU fund industry show: Substantial reduction in net returns available to investors, especially in the retail sector and weakly cost- or price-sensitive investment decisions by retail investors

On average ongoing fees and one-off charges and inflation-reduced returns available to investors by 29% of gross returns between 2013 and 2015. These reductions apply to all market segments, while varying across jurisdictions, asset classes and client types. Relative return reductions range from 11% for passive equity fund shares to 44% for retail fund shares in bond mutual funds. Relative and absolute return reductions for actively managed and retail fund shares tend to exceed those of passively managed and institutional fund shares. Despite the impact of fees and charges on the net outcome to investors, these do not seem to be reflected in investor choices.