

## **Investors see lower net returns from potential closet index funds**

Closet indexing refers to the situation in which asset managers claim to manage their funds in an active manner while in fact tracking or staying close to a benchmark index. The authors of the study looked at annual fund-level data for the period 2010 to 2018, finding that investors saw both lower expected returns and higher fees when they invest in closet indexers compared with active funds. Overall, the net performance of potential closet indexers was worse than the net performance of genuinely active funds, as the marginally lower fees of potential closet indexers are outweighed by reduced performance.

Closet indexing is a practice that has been criticised by supervisors and investor advocacy groups on numerous occasions in recent years, over concern that investors are being misled about a fund's investment strategy and objective and are not receiving the service that they have paid for.

ESMA and NCAs have worked to identify potential closet indexers by examining metrics on fund composition and performance and by conducting follow-up detailed supervisory work on a fund-by-fund basis. ESMA recognises that such metrics, while imperfect screening tools, are a useful source of evidence to help direct supervisory focus.

This study published today does not aim to identify particular closet indexers, but analyses how closet indexing relates to the costs and performance of EU-domiciled equity funds. In so doing, it aims to contribute to the understanding of closet indexing in the EU.

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## **Afghanistan: Statement by the High Representative/Vice-President**



The European Union strongly condemns today's attack against First Vice President Amrullah Saleh and expresses its full support to the democratic institutions of the Republic. We express our condolences to and solidarity with the families of the civilian bystanders who were killed and wish those injured in the attack a full and swift recovery.

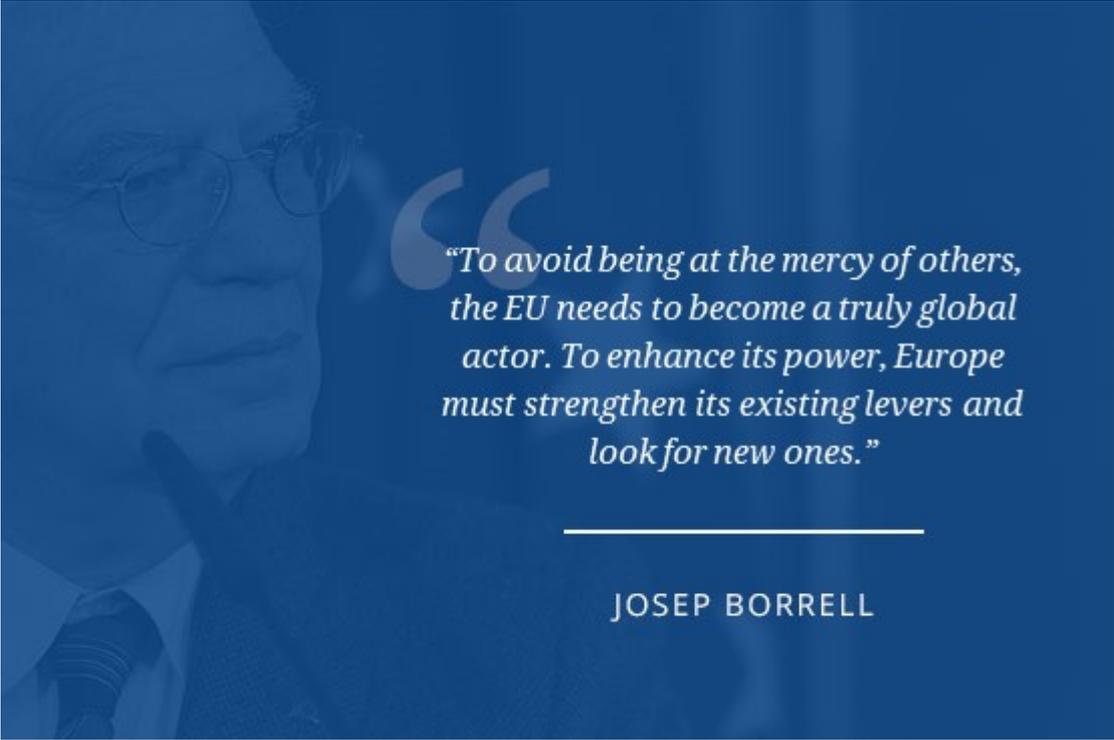
The attempted assassination of Mr Saleh follows many other unacceptable attacks on members of parliament, peace activists, journalists and religious leaders.

Those who seek to weaken the peace process by indiscriminately targeting and hurting officials and civilians, in breach of international law, will not prevail and will have to bear responsibility for their acts.

At this critical moment of Afghanistan's road to lasting peace, the European Union reiterates its determination to support all sincere efforts to finalise the last steps to start a genuine intra-Afghan Negotiation process.

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**[Building Global Europe](#)**



*“To avoid being at the mercy of others, the EU needs to become a truly global actor. To enhance its power, Europe must strengthen its existing levers and look for new ones.”*

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JOSEP BORRELL

We live in a world where interdependence is becoming more and more conflictual, in particular with the growing strategic rivalry between the US and China. We also see a broader trend towards competition between countries and systems, especially with some of our neighbours such as Russia and Turkey who seem to want to return to a logic of empires.

They consider they are entitled to control their surrounding neighbourhood in the name of alleged historical rights. They only recognize *the sovereignty of states and not the sovereignty of the people*. This is at the heart of our differences with Russia over Belarus or with China over Hong Kong. Democratic norms and our liberal-inspired vision of the world are challenged.

### **Multilateralism in crisis**

The world has become more multipolar but multilateralism has weakened, as evidenced by the growing paralysis of the United Nations Security Council, the deep crisis of the World Trade Organization, or more recently that of the World Health Organization. And this precisely at a time when global problems, especially the climate crisis or health issues, are becoming more and more critical.

Amid this increasing competition, not only do the classic tools of power play a role, but soft power itself is increasingly used as a weapon: think of films and other cultural products, the capacity to build social networks or the ability to attract talent. Trade, technology, data, information are now instruments of political competition.

***“Europeans feel they live in an increasingly***

***dangerous and unpredictable world. They need to be reassured that we can provide a meaningful and robust European answer. “***

Europeans feel they live in an increasingly dangerous and unpredictable world. They need to be reassured that we can provide a meaningful and robust European answer. If the EU does not become also a real world power, in terms of both hard and soft power, it will be at the mercy of other international actors. And this will affect all fields of our lives: communication, economy, environment, security. Even our democracies and individual rights and liberties would be in danger.

**Europe needs to act more united.**

To avoid this fate, Europe must strengthen its traditional levers, look for new ones and take new and visible initiatives to enhance its global posture. Europe needs at first to act in a more united way. And frankly, the EU is the only platform enabling European democracies to promote and defend their interests effectively. In the past, we have sometimes allowed others to paralyse us by dividing us, for example with regard to our relations with China or Russia. We must stop seeing Europe as a collection of national interests and instead define and defend together the common European interest. This is in particular the aim of the work undertaken with the European defence ministers [around the “Strategic Compass” concept](#), to jointly define the threats and challenges that Europe will have to face.

***“Strategic autonomy” is about defending our interests and values by acting multilaterally whenever we can, but being ready to act autonomously whenever we must.”***

We need to strengthen our capacities to act autonomously. The concept of “Strategic autonomy” is not about protectionism but about having the capacity to defend our interests and values by acting multilaterally whenever we can, but being ready to act autonomously whenever we must.

**We have more levers that we think**

To achieve this, we have more levers of influence than we ourselves often believe. Our internal market is still one of the most important in the world and no external player can afford to neglect it. The European Union has one of the strongest “soft power” toolboxes, with powerful trade and competition policies, significant aid volumes and the new possibilities offered by our investment screening mechanisms. We must use it to its full potential, taking a holistic approach and overcoming silos.

The COVID-19 pandemic has exposed the fragility of existing global value chains and Europe's vulnerability in that regard. Re-localisation and economic sovereignty have become dominant themes everywhere in Europe [As I expressed earlier with Commissioner Thierry Breton](#), we need to link closely our industrial and research policy with our foreign policy.

***“Re-localisation and economic sovereignty have become dominant themes. We need to link closely our industrial and research policy with our foreign policy”.***

We are the most important norm setter worldwide –as Anu Bradford convincingly sketches in her recent book “The Brussels Effect” – but we cannot maintain this position if we are not also a technological leader: we need to close the gap between our regulatory capacity and our technological ambitions.

We need to protect key technological sectors from falling under excessive control by a third party and to ensure the security of vital sectors such as digital, energy, raw materials and health. We must protect our critical infrastructure (from energy to space), and our digital autonomy and security (international digital rules/standards, cybersecurity). We should also leverage the renewed political priorities of the EU Next generation instrument on digital or environmental issues in the context of the programming of our assistance and other external policies.

### **The principle of reciprocity is key**

Relations with foreign partners must be evaluated according to the principle of reciprocity. This must become the rule, not the exception, while of course bearing in mind the need to take into account different levels of development and overall strategic interests. The rules that we impose on European companies, particularly with regard to subsidies, must also apply to non-European companies that want to enter our market.

***“Where necessary, we should be ready to adopt a more robust and strategic approach as we have done for instance with China.”***

Where necessary, we should be ready to adopt a more robust and strategic approach as [we have done for instance with China](#). We have worked to build our relationship with China on more reciprocity and a level playing field in trade, investment and beyond. By highlighting our political differences, we

have achieved that Beijing has to take Europe more seriously.

In parallel, we need to continue giving full priority to our very troubled neighbourhood both to the East and the South, and to Africa. Our partners' stability and prosperity are crucial for the EU's own security and strategic interests. We have also to strengthen our common action in the field of security and defence and foster the EU's capacity to act as a global security provider.

***“The EU has a strong stake in maintaining and developing a rules-based international order within the framework of an effective multilateralism.”***

The EU has a strong stake in maintaining and developing a rules-based international order within the framework of an effective multilateralism – even if others are clearly trying to weaken it. The joint Communication on Multilateralism that we are planning for next year will set out what the EU can do to counter this trend. Over the years, the EU has been quite successful on the climate issue but we must also contribute more actively to reform what needs to be changed, for example in the WHO and WTO.

***“As EU we can and should do more to develop a level playing field when it comes to social and human rights.”***

As EU we can and should do more to develop a level playing field when it comes to social and human rights, through enhanced so-called “due diligence” requirements for economic operators in their procurement chain. We must strengthen our trade policy to ensure that the commitments made by our partners with regard to social and environmental standards are fully respected. We must also reflect on the implications of a carbon border tax without which the Green Deal would lead either to carbon leakage or to competitive disadvantage. And of course we must continue to lead the global fight against tax havens.

Our legacy will lie on our ability to ensure the socio-economic recovery of the actual Covid-19 crisis and to project a more effective role for Europe in the world. As HR/VP, I am pursuing this goal by harnessing the power of the instruments of the Commission and EEAS with the actions of the Member States acting together in the Council.

### **The need to overcome scepticism**

I know there is a lot of scepticism in Europe about our ability to achieve this, but I am convinced we can succeed. And outside observers are too: [“Europe’s geopolitical awakening”](#) is an article published last month by the renowned American magazine Foreign Affairs. It argued that Europe, for all

its faults, would probably come out of the crisis with a stronger global role, due to the extensive response provided so far by the European authorities and the significant progress in terms of internal solidarity demonstrated by the Next Generation Europe initiative.

The crisis triggered by the Covid-19 epidemic is far from over and all its consequences are still unknown. However, it depends obviously above all on us, on our common will and actions, to make Global Europe really happen.

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## [EU budget for 2021: Council agrees position](#)



Today EU ambassadors agreed the Council's position on the 2021 EU draft budget. In total, the Council's position for next year's budget amounts to **€162.9 billion in commitments** and **€164.8 billion in payments**.

The 2021 budget will help the EU to address the damage of the COVID-19 pandemic, which has deeply affected our societies and economies. The Council's position is fully aligned with the priorities agreed by EU leaders in July for the next multiannual financial framework. It provides appropriate means to support a sustainable recovery as well as the EU's green and digital transition.

*Olaf Scholz, Germany's Federal Minister for Finance and Vice Chancellor.*

The 2021 budget will be complemented by actions to support the **COVID-19 recovery**, which will be funded by Next Generation EU, the EU's €750 billion pandemic recovery plan.

This is the first annual budget under the long-term EU budget for 2021-2027, the **multiannual financial framework** (MFF). As the trilateral talks with the Parliament on the next MFF are ongoing, the Council will re-evaluate its position in light of the final text of the MFF and the letter of amendment expected from the Commission later in the procedure.

A summary of the Council's position is set out in the table below\*

MFF headings	Council's position on DB 2021		Council's changes on DB 2021	
	c/a	p/a	c/a	p/a

	Council's position on DB 2021			Council's changes on DB 2021		
	c/a	p/a		c/a	p/a	
<b>1. Single Market, Innovation and Digital</b>	20 691 823 712	17 251 950 531		- 668 146 388		- 321 366 275
2 Cohesion and Values	52 423 840 797	66 008 897 578		+ 936 690 636		+ 3 383 715 737
2.1 Economic, Social and territorial cohesion	48 191 000 000	62 005 416 732		+ 1 041 528 559		+ 3 318 126 194
2.2 Investing in Competitiveness, People and Values	4 232 840 797	4 003 480 846		- 104 837 923		+ 65 589 543
3 Natural Resources and Environment	58 577 683 873	56 879 737 700		+ 136 556 868		+ 630 191 252
4 Migration and Border Management	2 340 947 222	2 583 803 611		- 719 866 537		- 139 679 938
5 Resilience, Security and Defence	1 681 907 319	686 561 468		- 507 118 461		-1 123 895 160
6 Neighbourhood and the World	15 318 190 665	10 361 698 045		- 795 429 335		- 57 107 310
7 European Public Administration	10 406 729 663	10 408 004 752		- 44 495 508		- 44 495 508
<b>Total for MFF headings</b>	161 441 123 251	164 180 653 685		-1 661 808 725		+ 2 327 362 798
<b>Special instruments</b>	1 470 834 288	646 362 112		- 2 172 415 712		- 1 015 449 888
Emergency Aid Reserve (EAR)	1 273 449 600	636 724 800		- 1 910 174 400		- 955 087 200
European Globalisation Adjustment Fund (EGF)	197 384 688	9 637 312		- 212 241 312		- 10 362 688
European Union Solidarity Fund (EUSF)	p.m.	p.m.		- 50 000 000		- 50 000 000
Brexit Adjustment Reserve (BAR)	p.m.	p.m.		p.m.		p.m.
<b>Total for Special instruments</b>	1 470 834 288	646 362 112		- 2 172 415 712		- 1 015 449 888
<b>Total appropriations</b>	162 911 957 539	164 827 015 797		- 3 834 224 437		+ 1 311 912 910

\*in €, c/a: commitments, p/a: payments, DB: draft budget

## Next steps

The Council is expected to formally adopt its position at the end of September and will submit it to the Parliament on 1 October. The latter is expected to adopt its amendments to the Council's position in the week starting 9 November. If the Council's and the Parliament's positions diverge, a three-week conciliation period will start on 17 November.

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## EU-UK relations: Coreper agrees mandate on Channel tunnel railway safety



The EU is working on legislation to ensure the **safe and efficient operation of the Channel Tunnel railway connection** between continental Europe and the United Kingdom (Channel Fixed Link) after the end of the Brexit transition period. Today, the Council's Permanent Representatives Committee agreed on a negotiation mandate on two proposals aimed at maintaining a **single safety authority**, which would continue to apply the **same set of rules** over the whole infrastructure, including in its section under UK jurisdiction.

Currently, all matters concerning the operation of the Channel Fixed Link are supervised by an Intergovernmental Commission set up by the Treaty of Canterbury, signed between France and the UK in 1986.

Under the **Council mandate**, France will be empowered to negotiate an amendment to the Canterbury Treaty and the EU railway safety and interoperability rules will be amended so that the Intergovernmental Commission can be maintained as the safety authority competent for the application of EU law within the Channel Fixed Link.

The draft regulation amending the safety and interoperability provisions will be split into two draft regulations, in order to amend the Statute of the European Court of Justice in a manner that respects the Court's prerogatives while avoiding a delay in the start of the negotiations.

A swift adoption of the draft decision and draft regulation will allow the prompt start of the talks between France and the UK. The adoption of the amendments to the Statute of the ECJ will be essential at the end of these negotiations, before France is authorised to sign and conclude the actual agreement.

The negotiations between the Council and the European Parliament on the two proposals are taking place as a matter of urgency.