

New ESMA Report on Retail Fund Costs

The European Securities and Markets Authority (“ESMA”), the lead European financial regulatory and supervisory authority issued a market report on 14th January 2025 entitled “Costs and performance of EU Retail Investment Products 2024”. This provides an overview and analysis of returns and costs for UCITS, Retail AIFs and Structured Financial Products (“SFPs”). The preparation of this report follows their common supervisory action (“CSA”) and related briefing papers on “undue” costs and charges being imposed on investors in European funds and is aimed at facilitating greater market transparency.

Background

Costs and charges payable on European funds were identified by ESMA as a significant impediment to the further development of the investment industry in Europe at a retail level in a 2019 statistical report. Since then, it has launched various initiatives to focus on the issue in a bid to increase competitiveness of all European funds and highlight those charging undue fees. These initiatives have included a briefing on its interpretation of “undue” costs and charges for both UCITS and AIFs in 2020 and a CSA on the topic in 2021. In Ireland the Central Bank followed up on this with a Dear CEO letter in 2023 outlining its related expectations, including the preparation of relevant policies and procedures regarding costs and charges.

Key Findings of the Report

The report contains essential statistics on UCITS, AIFs and SRPs as well as an analysis of market developments and factors relating to each of these product categories. The executive summary

provides a useful bite-sized overview of the findings. The market analysis includes an overview of costs by fund and investor domicile as well trends for ESG. (Interestingly it notes that “highest cost levels were observed in Luxembourg”

However, apart from the above insight, from a practical perspective one of the most useful elements of the report is the series of statistical charts showing average costs compared to performance figures for different broad categories of strategy for each of the financial instruments examined. This indication on the different costs charged generally will lead to greater transparency and highlight outliers, potentially including “undue” costs. Enforcement actions may follow.

How Clerkin Lynch Can Help

Clerkin Lynch’s regulatory team can assist with the preparation of policies and procedures to ensure compliance with the regulatory requirements pertaining to costs and charges or provide an independent review of these as outside counsel. Contact us for more information.



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