

Index Industry Association response to the European Commission's Call for Evidence on the review of the scope and third-country regime of the EU Benchmark Regulation

The Index Industry Association (IIA) extends its gratitude for the chance to respond to the European Commission's Call for Evidence on the review of the scope and third-country regime of the Benchmark Regulation (BMR).

Comments on the Index Industry

Index providers serve to, among others, increase overall market transparency, provide innovation across asset classes, and supply markets with the tools for low-cost, investable products. The principal users of indexes include asset managers, custodians, banks, asset owners, and others.

The index industry is global by nature and is therefore subject to a host of regulatory frameworks. Accordingly, ensuring interoperability in this area is of paramount importance. Moreover, index providers operate in an intensely competitive industry, with an ever-increasing number of new entrants, due in part to low barriers to entry. Index providers compete on both price and innovation, constantly creating new indexes to meet investor needs. This, on top of benefiting index providers' customer base, ultimately benefits individual investors who purchase financial products based on these indexes.

By facilitating index-based investing, index providers have contributed to reducing the cost of both active and passive investing significantly – the rapid development of the Exchange-Traded Fund (ETF) market for instance, would not have been possible without the index industry. Furthermore, index-based investing helps improve the overall liquidity of financial markets.

General comments

The IIA welcomes the Commission's core statements featured within the Call for Evidence.

Particularly as they relate to the recognition of the wide use of non-EU benchmarks in the EU, and the risk of depriving market participants of most of the world's benchmarks were the BMR's current third-country regime enter into application. This would put EU investors at a significant disadvantage, invariably reduce their choice of investment products, and increase transaction costs due to there being less liquidity.

The IIA has always maintained all benchmarks do not present the same level of risk to investors and systemic risk. As such, the IIA would like to re-iterate its view that the BMR's scope and third-country regime need reforming and is strongly supportive of a Commission-led initiative to this effect.

Bearing this in mind, we also stress the need to confirm the Delegated Act certifying an extension of the transition period applicable to third-country administrators without undue delay in order to provide certainty to the market and guarantee the continuous provision of benchmarks in the Union.

Comments on designation

In the context of the Commission's review of the EU's dedicated regulatory regime for benchmarks, the IIA greatly favours a system based on positive designation. Positive designation provides investors with certainty as to what is covered.

Considering the well-documented, vast number of benchmarks in use globally, any decision to move forward with a designation system ought to ensure it is targeted, feasible from an operational perspective, and enforceable.

The criteria for designation should be established in such a way that they are proportionate and restrict themselves to benchmarks that are truly systemic in nature, so as to limit supervision and enforcement to benchmarks that are critical, thus preserving investors' access to the majority of index providers' products.

Closing remarks

The IIA once more thanks the European Commission for the opportunity to respond to the CfE, and its members stand ready to assist and answer questions should the need arise.

About the IIA

The Index Industry Association (IIA) is the trade association for the index industry globally. The IIA's mandate is to educate market participants on the attributes and role of indices within the investment process, to advocate for the interests of index users and providers worldwide, and to push for industry standards of best practice, independence, and transparency.