BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

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Panel: CMU: Long Term vision and contribution to financial integration

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Thank you to the ECB and to the EC to give the opportunity to the voice of European savers and individual investors to be heard in the crucially important debate on the Capital Markets Union.

In one year: the Treaty of Rome will be 60 year old. It provided for a common market for goods, services and capital. Almost 60 years later there is no such thing as a common market for financial services in general, retail investment in particular: These services remain extremely fragmented along internal EU borders.

Worse pensions and investments are repeatedly ranked as the poorest performing consumer markets of all by the annual EC Consumer scoreboard.

And Not only a perception but a reality: Better Finance (annual research on the real return of pension savings in the EU) and other independent research provide plenty of evidence that too many savings products deliver negative net real returns over time (and almost all under perform capital markets returns by a wide margin).

-> Therefore the "CMU" is most welcome at last ! : for growth jobs and citizens

In fact (Commissioner J. Hill): savers and individual investors at the heart of the CMU
<= EU households are the direct or indirect economic owners of 60 % of financial assets

- they are much less short termists than "institutional investors": 62 % of their financial assets are LT, 90 % if one includes property.

- they are less risk averse than "institutional investors": e.g. small caps markets – Western European insurers 8% of own assets in equity in 2010 already way before Solvency II

⇨ Nice words but we also need acts:

There are only two pages / 28 in the CMU Action Plan on individual investors: And one key building block is missing in our view:
How to encourage savers to turn to capital markets to complement their pension from 1st pillar ?
(J. Kay author of "Other People's Money")
(Author of the UK Government commissioned Review of UK equity markets and long term decision making, October 2014)

"***Need a simpler world in which … short chains of intermediaries provide more direct links between savers and the assets in which their funds are deployed***"

More precisely:

-> Two horizontal/transversal priorities for beneficial retail investment integration in the EU that are mentioned in the CMU AP:

➔ Enhance transparency: on performance/returns and fees (included in the CMU AP) : a huge step back in the wrong direction : The EU is now eliminating the standardised and supervised disclosure of past performance + benchmarks for retail investment products: we will not even know if the product has ever made money or not !

➔ End double taxation of investment income within the EU and tax discrimination against EU savers who subscribe to investment products domiciled in other MS

-> Three investment products:

➔ Role of investment funds for individual savers and investors

➔ Role of individual pension investment product s: PPPs , PEPP

➔ Role of securities: equity and bonds for individual investors: the big absentee in the whole CMU Action Plan !

INVESTMENT FUNDS - Role of Asset management industry

Essential and more and more so.
<= growing needs for pensions and retreat from Governments in funding
<= entered an era of severe financial repression: so we need positive net real returns for LT and pension savings.
Hope everyone including ECB realise that Pension savings / contributions per se ⇔ about 5 years of retirement income. All the rest has to come from returns : RETURNS MATTER !

Facts: Investment funds = only 7% of EU households savings, and UCITS (only Pan-European retail investment product) funds most probably less than half of that.
e.g. Corporate DC Plans in France: AIFs only (UCITS banned) and MM funds as the default option !
-> more direct access to cost effective investment funds

- EU equity funds: 4 times more than in the US and 2.5 times more expensive

- Too much choice ! (35 000 UCITS funds, not counting retail AIFs, and that is only on 7% of households' financial assets)

Low cost index funds not promoted enough to mass market: 10/90 instead of 50/50 in the US

-> see Better Finance proposals to boost use of the Pan-European UCITS funds by households

PENSION FUNDS
"How to encourage savers to turn to capital markets to complement their pension from 1st pillar ?" (question to the panel)

- First even before encouraging it do not discourage it and allow this instead of banning this (investments in listed securities) in the PEPP ! See the simple and popular IRAs in the US.

I thought the motto "why doing it simply if you can do it in a complicated manner " was French: today it seems to me to have become Pan-European.

- More simple and direct savings and pension products: a simple and <u>cost effective</u> PEPP **a critical need**,
- but need a strong political will and a high level of ambition to tackle this huge issue and time bomb, and for the EU Authorities to make it happen in the near future.
  Concerned that almost 4 years have passed already since the EU has asked EIOPA[1] to render advice on PEPP, and now the EC has asked EIOPA to look more closely at another option - a recipe for once again killing any material improvement in this critical but so far neglected services: the harmonisation of the rules governing the existing myriads of regimes of the existing PPPs in the 28 Member States. Even assuming a strong political will, the short and medium term probability of tangible results of this second option in the near future is zero.
- Pension savings already identified as top priority in the 2007 green paper on retail financial services: but no tangible improvements since then.

EQUITY - How to facilitate cross-border equity financing ? SMEs ?

For individual investors who can diversify their savings and have sufficient knowledge/understanding.

=> Encouraging instead of banning (PEPP – aside from a simple default option)

=> Facilitate cross-border voting within the EU: antiquated long and complex chain
=> ensure shareholders in nominee/omnibus accounts can fully exercise their rights

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[1] In July 2012 the European Commission (COM) requested the European Insurance and Occupational Pensions Authority (EIOPA) to provide technical advice on the prudential regulations and consumer protection measures needed to create a single market for personal pensions.7The COM further specified that EIOPA, in doing so, should consider at least two approaches:
_ Developing common rules to enable cross_border activity in the field of PPPs
(similar to the IORP Directive); or _ Developing a 28th regime

=> reverse the policy since Mifid I and before of tailor making capital markets for professionals players only ("other people's money") and therefore pushing out all individuals to more complex and fee-laden "packaged" investment products

=> develop and offer broad equity market products not only narrow/blue chip ones. Listed SMEs: see Stoxx Europe 50 vs. Stoxx Europe Total Market last 15 years: + 8% vs + 50% (2000 to 2014)