DUFAS encourages strengthening the European Capital Markets Union (CMU)

Statement

DUFAS calls on the EU institutions to strengthen the European Capital Markets Union (CMU) under the next European political mandate, as this is a critical part of any solution for the transitions the EU is facing as well as efforts to achieve strategic autonomy. DUFAS and its members believe that improving the CMU is essential in keeping Europe's Single Market strong and competitive. Also, strengthening the CMU is crucial for asset managers as it reduces costs and provides for more European investment opportunities, improving their ability to diversify portfolios across different EU countries and increase risk-sharing.

Moreover, a stronger CMU will attract more foreign investment to the EU, further boosting the competitiveness of European companies and access to deeper pools of liquidity. Many asset managers are long-term investors "par excellence", and by pooling savings they can provide vast groups of retail investors (including pension participants) access to asset classes that otherwise would be out of their reach. A strong CMU clearly benefits European asset managers through increased investment value, thereby benefiting their clients.

For the Dutch asset management sector, the top priorities for the CMU from 2024 onwards are as follows:

Increasing retail investor participation

1. There is broad consensus in the EU[1] about the urgent need to increase retail participation in EU capital markets, and that part of the solution lies in stimulating long-term efficient financial products for European citizens. Developing EU-level retail investment products and the creation of pan-European frameworks for enrolling employees in occupational schemes would create large pools of capital suitable for financing many of the EU's strategic priorities.

   Also, future efforts on the CMU should **empower European citizens to make the right decisions on improving their financial self-reliance and developing wealth**. Developing a retail investment strategy that focuses solely on enhancing trust may not necessarily contribute to the potential for broader retail participation in the CMU. Therefore, it is necessary to address the barriers that currently exist for retail investors. A focal point should be the development of digital opportunities that can

[1] See also the CMU statement by the Eurogroup last March, the conclusions on CMU of the European Council and Mr. Letta's report on the EU Single Market, *Much more than a Market* (April 2024).

attract and include European households to the capital markets thus creating an inclusive CMU. This requires the development of the CMU to prioritize establishing a framework that is inclusive, accessible, and responsive to the needs of retail investors, rather than a CMU that is solely focussed on trust-building.

Common topics related to this objective are (a) promoting, ensuring and fostering digitalization as a means to provide adequate information to investors, (b) providing better access to investment products and services for retail investors by removing barriers and encouraging digital opportunities, (c) ensuring insight and tracking for individuals pensions and introducing auto-enrolment schemes, and (d) promoting and ensuring investor education whilst combating financial illiteracy.

Retail disclosures

a) Providing simple and accessible information to a retail investor is key. Less is more. The PRIIPs Regulation and any other relevant disclosure rules, such as the Sustainable Finance Disclosure Regulation (SFDR), should focus on the needs of retail investors and should avoid an overload and complexity of information. In addition, one has to consider ways promoting the development of an independent digital comparison mechanism for retail investors, also by means of using layering techniques. We encourage the use of new digital solutions with appropriate and effective provision of information and investor education, whilst at the same time ensuring investor protection. Open finance and more widely available digitalised data allows for the empowerment of individual consumers and a smaller information gap.

More accessible investment services

b) Regulations aimed at increasing retail participation should move away from product-oriented solutions to client-oriented solutions. Regulation should focus more on total solutions for the EU-citizen accumulating wealth and making retirement provisions.

   Firstly, retail investors should be ensured access to affordable and good financial advice or portfolio management. In that respect, limiting suitability and appropriateness requirements for certain investment services and financial products could have a positive effect on access for retail clients to capital markets. We recommend to include in the upcoming Retail Investment Strategy (RIS) a so-called 'light' or 'simplified' investment services, referring to services which are more suitable and catered to mass retail investors, especially investors that are investing on a regular/preprogrammed basis in well spread investment products for a longer term and/or where they invest relatively small amounts.[2]

[2] See DUFAS The EU Retail Investment Strategy- Position Paper https://dufas.nl/standpunten-en-publicaties/dufas-reageert-op-ec-voorstellen-over-retail-investment-strategy/

Secondly, regulation should be more adapted to the distribution of investment products through digital channels. The use of FinTech solutions in the application of KYC applications should be encouraged. Regulation should accommodate customer contact that takes place through real-time tools and personalized digital communication, whilst traditional customer channels may be replaced by digital chatbots and voice-enabled assistants. At the same time, we support optimal investor protection in a digital environment.

Stimulate retail investing by building up European capital based pensions

c) Europe is ageing. Investing in capital based pensions mitigates old-age risk for both member states and citizens and generates demand for diversified and long-term European assets, providing European companies and member states with the deep pools of liquidity that are needed to finance the transitions ahead. Making European citizens more aware of their retirement income is essential to stimulate them to invest in order to bridge their pensions gap. We welcome initiatives by the European legislator to increase the volume of pensions assets setting up auto-enrolment pension schemes as well as pension dashboards pension tracking systems for both Pillar II and Pillar III pension products to assess pension adequacy. Stimulating by means of proper tax-incentives in member states can also be helpful.

   Increasing awareness and facilitating participation in capital based pension schemes allows individuals to better prepare for retirement and ensure security in later years. Auto-enrolment schemes and pension tracking systems can help streamline the process, create citizens' financial awareness, and may also make it easier for them to access and manage their pensions effectively. Only a proactive approach by the European legislator can make a significant impact in promoting financial literacy and retirement planning among the population.

Financial literacy and role of (f)influencers

d) Increasing financial literacy results in higher retail investor participation, helping the EU capital markets grow. We welcome and encourage future actions and initiatives taken by the European Commission to improve EU citizens' **financial literacy** and help citizens invest in EU capital markets. Simultaneously, addressing the growing influence of so-called (f)influencers, often promising unrealistic returns on investment to young investors, having a detrimental impact on the trust and participation of retail investors in capital markets.[3]

Strengthening investor protection in the EU

[3] See also DUFAS response to the ESMA Discussion Paper on MiFID II investor protection topics linked to digitalisation https://dufas.nl/standpunten-en-publicaties/dufas-reageert-op-discussion-paper-van-esma-over-beleggersbescherming-en-digitalisering/

e) DUFAS urges the Commission to continue its work on strengthening investment protection and the facilitating framework in the EU. In line with the CMU Action Plan of 2020[4], this would involve substantive rules to ensure consistent and predictable protection of intra-EU investments, better enforcement of these rules and specific investment facilitation measures.

EU Retail Investment Strategy

The proposals and deliberations on the EU Retail Investment Strategy (RIS) are a step in the right direction. However, the RIS lacks in proposals for improving accessibility. DUFAS believes that the RIS should focus on improving accessibility for the retail investor to the capital markets as well as (re)building trust of financial markets and its participants.

The current RIS proposals do not sufficiently encourage European savers to invest more in the capital market or promote retirement savings. It therefore fails to include a large amount of potential capital for the European economy. Proposed measures such as Value for Money and Benchmarking are aimed at the internal product governance process and focus on trust, but are not explicitly aimed at removing possible barriers for investing or activating consumers to invest. **More measures should be taken to encourage consumers to invest and build up their wealth and pensions rather than exclusively utilizing savings.**

Sustainable Finance

2. Ensuring growth in **European (sustainable) investment products.** Needless to say, the EU Action plans for sustainable finance launched in 2018 and 2020 and subsequent legislative packages and strategy reviews will significantly contribute to growth of the CMU. DUFAS believes and supports that sustainability is the only means to attain long term prosperity. The CMU is crucial for this, as it provides the conditions needed to deliver the EU Green Deal and the transition to a green and just European economy.

   Strengthening EU sustainable finance and promoting the growth of European sustainable investment products will shape the energy transition and the transition into a sustainable society. We are certain that this will boost the CMU and its competitiveness through green innovation. However, as the road towards an European sustainable society is still a work in progress, we encourage the European legislator not to make the framework overly complex and fragmented. An overly complex framework does not improve competitiveness of the CMU. We stress the importance of a stable and clear legal and regulatory sustainable finance framework. The regulation in this field must be clear, effective, efficient, and not impose unnecessary burdens on both the business and the financial sector. Also, to be able to successfully navigate the green transition ahead on behalf of their clients, asset-managers need sectoral pathways to guide this. In this respect, the European

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Commission should recognize transition finance in the current SFDR review and as part of the further development of the Taxonomy.

Interaction within the sustainable finance framework

a) Whilst the sustainable finance framework is meant to be one coherent piece of legislation, certain parts of the sustainable finance package do not sufficiently interact with each other. Inconsistency adds to the complexity of the framework. For example, company reporting requirements under the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) are conceptually misaligned with the requirements for market participants under the SFDR. More in particular, companies under the CSRD/ESRS have no obligation to report on all of the mandatory principal impact indicators (PAI) which financial market participants need to report under the SFDR. SFDR requirements should therefore be aligned and streamlined with PAI indicators published by companies under the CSRD/ESRS.[5] Obviously and inherently, there are more inconsistencies and mismatches within the sustainable finance framework. DUFAS recommends that in the upcoming years the European legislator focuses on alignment and identifying and removing inconsistencies within the framework rather than introducing more regulation. This should contribute to more effectively channelling financial capital for the transition to a sustainable economy.

Financial disclosures for all investment products

b) As said the growth in European sustainable investment products will also contribute to the growth of the CMU. The disclosure framework laid down in the SFDR is key. DUFAS believes that the current SFDR framework is not achieving its primary aims and we call upon the legislator to make adjustments to the SFDR in order to better able to achieve the goals set by the SFDR.[6]

SFDR Level 1 review

DUFAS' first recommendation to this effect is to apply SFDR-based, standardized product disclosures, particularly related to adverse impact disclosures, to all financial products offered in the EU, regardless of their sustainability-related claims or sustainability characteristics. We feel that such adjustment is absolutely key in order to enhance comparability for alle financial products and to create a level playing field for all financial products. Secondly, we believe that the current SFDR classification system is far from

[5] See DUFAS Response to the European Commission consultation on the ESRS Delegated Regulation, https://dufas.nl/standpunten-en-publicaties/consultation-disclosing-pai-indicators-must-be-mandatory-under-esrs/

[6] see DUFAS Summary response to the European Commission targeted consultation on the implementation of SFDR. https://dufas.nl/standpunten-en-publicaties/consultatie-focus-op-het-verbeteren-van-de-sfdr-level-1/

perfect, particularly as the current article 8 disclosure regime has on one hand no requirement for actual sustainable outcomes and the broadness of "sustainability characteristics" renders it meaningless, which facilitates greenwashing. On the other hand, financial market parties are more or less forced to classify their products as article 8 or 'light green', as the SFDR defines promotion of ESG characteristics in a very broad manner contrary to promotion in a more commercial marketing context. We call upon the European legislator to address these two important issues.

Retail participation

c) We believe that the participation of retail clients, especially that of young investors, will be boosted in a growing market for sustainable products. In order to achieve more participation, adequate, meaningful and effective information on sustainable investment products is needed. At this stage, the disclosures under the SFDR are not suited to cater to the needs of retail investors. Whether based upon or embedded in the SFDR, we call upon the legislator to introduce adequate and meaningful **sustainability labels**, especially for the retail market, which provide granular, meaningful, and clear information the greenness of investment products. This may either be based upon the disclosures of the SFDR or embedded into the SFDR.

Non-financial or ESG Data

d) The entire sustainable finance framework is very much dependent on non-financial ESG data. **Under the next mandate, the full alignment of reporting by corporate and financial entities should be achieved.** DUFAS supports any initiatives of the European legislator to make non-financial data, i.e. ESG data, more directly available to market participants. The implementation of the CSRD and the development of the single access point for EU financial and non-financial data (ESAP) are important developments. For asset managers access to **high quality, comparable, and reliable - preferably audited - non-financial data** which can be obtained on a cost-efficient basis is essential. Comparability of ESG data should also be achieved by subjecting ESG data providers to a minimum of transparency rules. It is essential that ESG data providers are transparent about their (i) fees, (ii) the source of the data, (iii) any methodologies used and (iv) whether data are based on estimates. These transparency rules could ideally be prescribed by means of a code of conduct scheme. We feel that this opportunity has been missed by the upcoming establishment of the EU ESG Ratings Regulation.[7] At the same time, we stress the importance of compliance costs remaining low to make sure that both data and ESG ratings are available for a competitive market price, also for small and medium-size European asset managers. A too stringent regime for both data

[7] See DUFAS Response to the European Commission consultation on the proposal for regulation on the transparency and integrity of ESG rating activities, https://dufas.nl/standpunten-en-publicaties/consultatie-dufas-response-on-esg-ratings-and-factors/

providers and ESG rating providers may lead to an increase of compliance costs, which may even become too high for non-commercial providers.

Strengthening shareholders rights on sustainability strategies of companies

e) Enhancing shareholder engagement can help to hold companies accountable for their sustainable practices and encourage them to prioritize environmental, social, and governance (ESG) factors in their decision-making processes. By involving shareholders in the discussion, institutional investors, and asset managers in particular, on sustainability, companies can benefit from valuable feedback and insights from their investors, ultimately driving positive change towards a more sustainable future. A dialogue on the companies' sustainability report established pursuant to the Corporate Sustainability Reporting Directive (CSRD), should be on the agenda of the annual shareholders meeting and shareholders should at least have an advisory vote on the sustainability report of such companies. Giving shareholders a say on the sustainability report can help align the interests of shareholders and management towards long-term sustainable growth. Overall, by strengthening shareholder engagement and increasing the involvement of institutional investors and asset managers in promoting sustainability, for example via the Shareholders Rights Directive, the CMU can play a key role in advancing the transition to a more sustainable society.

Growth and ensuring accessibility to the European capital markets

3. An **efficient European financial market infrastructure** and **access for SMEs to the capital markets** is key. Today, investors enjoy suboptimal efficiency and protection once they have invested in capital markets. Ensuring efficiency and mitigating costs of the market infrastructure should be part of the CMU. Growth of the CMU will also strongly depend on the availability and affordability of market data. DUFAS welcomes therefore any initiatives aimed at an efficient European financial market infrastructure. Furthermore, we believe that competitiveness of the CMU will also be fostered by facilitating the growth of SMEs.

An efficient European financial market infrastructure

a) Growth of the CMU strongly depends and is reliant on the availability and the costs of market data. This relates to market data in the financial market infrastructure, e.g. price data for pre- and post-trade transparency, needed for regulatory compliance. We therefore welcome the establishment and further development of the consolidated tape for trading information.

Growth and ensuring accessibility to the European capital markets

b) To ensure growth of the CMU, it is important that asset managers also have sufficient investment opportunities in listed and more liquid small and mid-cap companies. DUFAS members experienced with large and increasing regularity that small-and midcap enterprises with sound perspectives (i) refrain from an IPO or (ii) consider a de-listing because of an overkill of rules. And with that a flight of capital towards private equity funds is also created. For the asset management sector, it is a requirement that exchanges as part of a growing and vibrant capital market provide the space needed for sufficient investment opportunities. Accessibility of the capital markets for small and mid-cap enterprises offer more safeguards and opportunities for inclusion of these companies in the portfolio of a (retail) investment fund. Improving accessibility of small and midcap enterprises to the capital markets is therefore key. We trust that the upcoming EU Listing Act will be effective to achieve growth and ensuring accessibility for SMEs to the European capital markets The EU Listing Act should streamline the listing process for SMEs, making it more cost-effective and efficient for them to access the necessary capital for expansion and growth.

Convergence of EU legislation and Better Regulation

4. Finally, in order to strengthen the CMU existing European laws and regulations should be scrutinized on possible national legal and regulatory barriers across the EU. The aim should be **to simplify and make current EU regulations more effective, whilst at the same time maintaining a high level of investor protection and ensuring an efficient European financial market infrastructure**. More cooperation on this topic between politicians, supervisory authorities and the asset management sector is therefore needed.

Convergence of EU legislation and interpretation thereof

Whether or not the principle of convergence of EU legislation will eventually have to lead to the establishment of a single EU supervisor for the financial markets similar to the ECB's Single Supervisory Mechanism (SSM) is difficult to say. However, we do see merit in looking into a gradual approach aimed at strengthening the mandate of ESMA in collaboration with National Competent Authorities, in order to ensure more convergence and consistency in the application of EU laws and supporting a level playing field. Were regulatory divergence does exist on the EU capital market, ESMA should be the authority to make this transparent.

Supervision & Regulation

We call upon the European legislator to simplify and make current regulations more effective. Although the European legislator came up with the Better Regulation Initiative, DUFAS believes that its aims have not yet been fulfilled. In the upcoming years, the European legislator should focus on evaluating and alleviating the regulatory burden by reducing unnecessary existing reporting and compliance obligations of which no evidence exists of its purported effectiveness.

- *Effectiveness:* We encourage testing regulations on effectiveness, possibly in collaboration and use of science and by increasing the use of consumer testing, for example on sustainable related information pursuant to the SFDR. Laws and regulations should be more effective, less costly and should not create burdensome non-effective reporting rules.

- *Compliance costs:* Better and effective European rules as a prerequisite for providing more space to financial institutions for innovation and boosting the CMU instead of implementing detailed laws and regulation; and pressure from compliance costs should be reduced by revising non- or less effective regulations, and by harmonising, for example, various reporting obligations under EMiR, MiFIR, CSDR etc.

- *Proportionality:* It is important that more proportionality is embedded into EU legislation. In particular, it is not sufficient to merely refer to the proportionality principle in legislation, it should also be clearly shown in outcomes. DORA is one of the examples of the absence of the embedding of the proportionality principle, as the principle based legislation of level 1 is translated into very detailed rule-based legislation where the proportionality principle cannot effectively be applied to organizations which vary in nature, scale and complexity of the services, activities and operations.[8] One way of applying more proportionality is to leave more discretion to financial market parties explicitly granted into legislation how to apply and implement principle-based EU rules. Alternatively, scrutiny or guidance by supervisors could be achieved by reports on good and bad practices.

- *Role of the ESMA:* among the various reports and on the CMU a progression towards more integrated supervision within the securities domain is visible. In DUFAS' view, with respect to equity markets, there is room for a process which entails gradually ('step-by-step') enhancing the direct supervisory powers of ESMA, adopting a bottom-up strategy. Specific areas of EU capital markets may benefit from EU-level supervision, e.g. those where entities operate with a strong cross-border, pan-European dimension, and where efficiency gains can be achieved better at EU level. Further criteria may need to be taken into account on a case-by-case basis, depending on the specific nature of each sector.[9]

Dutch Fund and Asset Management Association, 23 May 2024

[8] See also DUFAS Position Paper, https://dufas.nl/standpunten-en-publicaties/consultatie-proportionaliteit-ontbreekt-in-eerste-dora-level-2-documenten/

9 See also the ESMA's position paper "Building more effective and attractive capital markets in the EU (europa.eu)".