DUFAS

Dutch Fund and
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DUFAS Position on the Savings and Investment Union (SIU)

Over the past years, significant progress has been made in expanding capital markets and establishing a robust regulatory framework, which will support future growth. However the reports of Mario Draghi and Enrico Letta highlighted remaining inefficiencies in EU's capital markets, in particular a significant savings and investment mismatch in the EU, where citizens' wealth is being underserved by low-yielding deposits, and companies, particularly young and innovative ones, are struggling to meet their capital needs due to inadequate financing options.

Challenges remain to fully realize the SIU. With the recommendations of DUFAS outlined below, we can create an inclusive financial ecosystem that empowers retail investors and drives economic growth.

Increase retail investor participation

There is broad consensus in the EU about the urgent need to increase retail participation in EU capital markets. In order to achieve this, it is necessary to address the barriers that currently exist for retail investors. These barriers are related to financial literacy, the investor journey, the availability of simple investment services, and retirement income.

Financial literacy

Increasing financial literacy is an important point of focus in order to achieve higher retail investor participation, helping the EU capital markets grow.
Investment education can help retail investors to understand the principle of investing and to empower individuals to enhance their financial judgement. In order to be effective, this education must be offered continuously and on a structural basis, for example with programs focused on primary and secondary schools. We see a primary task here for the government, where needed with support from the financial sector.

Education is of great importance, however **behavioral change** does not take place only through education in schools. By enabling people to learn from each other in a relatable and accessible way (for example digitalized peer-to-peer financial education), consumers are able to effectively assess the quality and value of financial products and advice. So-called **finfluencers** can help spread information and increase financial education, under the condition that the information and content they share is correct.Simultaneously, finfluencers, when promising unrealistic returns on investment to young investors, have a detrimental impact on the trust and participation of retail investors in capital markets, which needs to be addressed.

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Investor journey

The investor journey should be made less complex. A combination of factors that are important in the entry of more retail investors to the capital market are:

- **Warnings**. Legislation on investments mainly prescribe that investors must be made aware of the risks of investing. This can have a discouraging effect. These disclaimers are not prescribed for a traditional deposit accounts, while these deposit accounts also involve risks, for example that too little returns are achieved to meet (pension) goals, or even a negative return because the interest rate is lower than inflation. A distinction could be made between warnings/information obligations for simpler and more complex investment products and/or services.
- **Disclosures**. Providing simple and accessible information to a retail investor is key. Less is more. The Packaged retail and insurance-based investment products (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 complexity and an overload of information. In addition to limiting the amount of information, consideration should also be given to the method of providing the information. One method of making information more digestible for investors is through the use of layering techniques. There should also be room for providers to be able to offer mandatory information in different formats. For example, a video instead of extensive written documents. The retail investor can then choose his preferred channel.

Improvement of investment services

We see **no need to come up with new types of products or labels**, since existing products (UCITS, ELTIF and retail-AIFs) already provide sufficient suitable investment possibilities for retail investors. More importantly is to look at the investment services and how they can be designed to attract more retail investors.

Many investors still seek advice or guidance but can't or won't pay for it. Introducing a framework for simplified investment services within MiFID II would help bridge the gap between execution-only distribution and full advice models. DUFAS is therefore in favor of so-called **'light' or 'simplified' investment services.** We see the following principles/conditions for these simplified investment services:

- **'Light' advice or portfolio management** in an accessible way should be part of the proposition; some basic characteristics of the client should be taken into account, but conducting an extensive suitability test should be avoided. A **limited suitability test** ensures that investments can be tailored to generic needs of the investor, but the **costs of advice could be kept to a minimum**.
- Although one of the main goals of the Savings and Investment Union is to increase investments available for EU companies, a **geographical restriction is not in the interest of savers/investors** and is at odds with the fiduciary duty of asset managers. Simplified

investment services should support household wealth creation, which as a result could lead to a strengthening of the European economy.
- A **diverse range of products** should be offered via the simplified investment services. Products should not be limited only to passive, low-cost trackers. Our suggestion would be to, in principle, allow all types of products and only exclude truly complex products (such as crypto and derivatives).
- The investment services must be provided in an **easily accessible manner**, for example via digital channels. At the same time, we support optimal investor protection in a digital environment.
- It should be possible to **invest on a regular/preprogrammed basis**. This way it becomes a habit for retail investors to invest freely investable capital, the impact of volatility on the their portfolios can be reduced (Dollar Cost Averaging) and investors can benefit from compound interest.

Tax incentives

Apart from making investing more accessible to retail investors in the ways mentioned above, **tax benefits can be a push for retail investors** to (start) investing. There are various examples of individual savings accounts worldwide, which (under certain conditions) offer tax benefits to retail investors. Although such an 'EU individual savings account' requires further research and development, we recognize the following preconditions:
- There should be no attempt to design one single type of individual saving account that works in every EU Member State; the EU can establish a framework, but **tax matters should remain a national matter**.
- The individual savings account should be simple and straight forward; **difficult calculation methods should be avoided** as much as possible.
- Obtaining the tax benefits should be **easy to process** for the average retail investor; no use should be made of cumbersome administrative processes, such as reclaim procedures. Automatic processing in the tax return would be a suitable processing method.
- **No specific goals or obliged holding period** should be attached to the individual savings account. However, a tax-exempt period can be linked to the account, for example a period of 5 to 10 years. The individual savings account is then suitable for medium to long term investments.

Pensions

Many European countries currently lack a funded pension system, which is unsustainable in light of an aging population. At the same time, large amounts of money remain in low-yield deposit accounts, losing value due to inflation, while a significant investment gap persists. Addressing these challenges requires the **development of additional funded pensions within the second and third pillars**, enabling citizens to save effectively and complement potentially declining public pensions while also contributing to a larger investment pool.

Pension systems remain largely a national matter due to tax considerations and because (occupational) pension schemes are in general agreed between employers and employees, and are not a retail financial product offered by financial institutions to consumers. As such these schemes fall, based on the subsidiarity principle, under the responsibility of the national Member States of the EU. **This means that reforms must primarily be implemented at the national level.** However, the European Commission can play a key role in providing guidance, such as through a blueprint or enhancements within the Institutions for Occupational Retirement Provision (IORP) framework. These tools could support Member States in establishing their own funded pension systems, ensuring a more sustainable and resilient approach to retirement savings:

- **Autoenrollment** (with or without optout)
- **Tax incentives**
- Providing insights for citizens through **pension tracking services**

It is not necessary for EU Members States to implement this in a harmonized way. The systems in Member States that have effective mechanisms, like the Nordics and the Netherlands, differ considerably between them. None of these systems is cross border. Too strong a focus on 'cross border' blocks the view on the much larger group of workers and citizens that do not yet save for their pension, and will not be active cross border.

There is of course one exception to the preference for national action; the **Pan-European Pension Product (PEPP).** However the PEPP in its current form is not very successful, and should be reviewed, as it may serve as an alternative for certain Member States to further develop their Pillar III offering.

Productive investments in the EU

EU households hold over EUR 33 trillion in financial assets, however a large part of this money sits in cash and bank accounts, rather than being mobilised into productive investments that could accelerate Europe's innovation. We believe the most important way to make more capital available to EU companies is by **mobilising savings more effectively** through more investor participation, both retail and institutional. Increasing retail participation can be done in the ways mentioned earlier. But also increasing pan-European visibility of opportunities for institutional investors would help. Many times institutional investors are stimulated to invest nationally and different initiatives look to increase visibility of national opportunities but miss the pan-EU aspect.

To ensure growth of EU companies, it is important that asset managers 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**. For the asset management sector, it is a requirement that exchanges 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 EU Listing Act will be effective in driving growth and ensuring accessibility for SMEs to the European capital markets.

We don't think that any preferential tax incentives should be granted to savings products investing primarily and/or predominantly in European assets. Neither should any thresholds for European investments be introduced. **A strong geographical restriction is not in the interest of savers/investors and is at odds with the fiduciary duty of asset managers.** Also there is a risk that Member States will see this as an alternative route to issue their own bonds, while what we need for SIU is really productive investments.

When it comes to investing, the focus should not only be on public markets. **Private markets** also offer excellent opportunities and should therefore be accessible to retail investors as well. **ELTIF 2.0** is a good example of a product that allows scalable and regulated pan-European distribution of private markets investments.

Market integration and efficiency in capital markets

In order to remove barriers to cross-border activity, there should be a regulatory **level playing field in all Member States.** Gold plating causes fragmentation in capital markets and could block fair competition between financial institutions that (want to) operate cross-border. Eliminating inconsistencies in interpretation is essential to building a unified Savings and Investments Union.

To increase efficiency in capital markets, **European legislation should be simplified, better and more predictable**, whilst at the same time maintaining a high level of investor protection and ensuring an efficient European financial market infrastructure. 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**. Better and effective European rules are a prerequisite for providing more space to financial institutions for innovation and boosting the SIU instead of implementing detailed laws and regulation. Pressure from **compliance costs** should be reduced; less compliance costs gives financial institutions room for innovation, may have a positive impact on product/services costs and leads to the availability of (financial) resources to focus on further finetuning (online) services.

Post-trading improvements play an important role in creating a more efficient capital market. Moving also in the EU to a **shorter settlement cycle** (T+1 settlement) leads to many benefits, such as less counterparty credit risk and less need for collateral. By reducing margin requirements, capital can be used in a more effective way. Besides shorter settlement cycles, more automation of post-trading processes could improve the efficiency of EU capital markets.

Another step that needs to be taken to improve the clearing landscape is by **harmonizing post-trade obligations**, for example the various reporting obligations under EMiR, MiFIR, CSDR etc. Less compliance costs can lead to more budget for innovation and create a more attractive market for market parties such as brokers.

Market efficiency would also greatly benefit from transparency. The introduction of a **Consolidated Tape,** providing consolidated data on prices and volume of traded securities in the EU is a very welcome step to increase transparency.

Supervisory arrangements

Before making any changes to the current supervisory arrangements, it is essential to carefully consider all factors. **An effective supervisory framework must strike a balance between various objectives**, such as financial stability, market integrity, market growth, and investor protection. Clearly defining goals and evaluating the costs and benefits of any change is crucial. We must avoid a one-size-fits-all approach by recognizing the differences between various market players and infrastructures.

Certain areas of the EU capital markets, particularly those with a strong cross-border, pan-European dimension, may benefit from EU-level supervision. This is especially true where efficiency gains can be better achieved at the EU level. Additional criteria may need to be considered on a case-by-case basis, depending on the specific characteristics of each sector.

Suggestions that could improve supervisory arrangements:

- There should be a **level playing field in supervision**. Mainly ESMA should provide interpretation on regulation, not the NCAs, which could lead to more supervisory convergence.
- Supervisory centers of excellence could be set up, encouraging effective sharing of data by the NCAs through a common data hub, greater use of supervisory colleges and other supervisory forums.

We would like to emphasise that, given the pressure on the financial market to keep the costs of products and services low, the **costs of supervision should remain limited**.

DUFAS: Dutch Fund and Asset Management Association

Since 2003, DUFAS has been committed to a healthy asset management sector in the Netherlands. DUFAS has more than 50 members: from large asset managers who invest Dutch pension and insurance assets to smaller, specialist asset managers. DUFAS increases awareness of the social relevance of investing, helps to develop sector standards and represents the sector in the implementation of new laws and regulations. In addition, DUFAS is committed to a single European market with equal regulations.