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

PRESS RELEASE

EQUITY FINANCING OF THE EU ECONOMY: HOW TO GET EU CITIZENS AS INVESTORS BACK INTO CAPITAL MARKETS?

On **22 November**, BETTER FINANCE, the European Investment Bank and the Federation of European Securities Exchanges teamed up for the International Conference on the 'Equity Financing of the EU Economy'. A full room was addressed by prominent speakers representing the European Parliament and Commission, Permanent Representations to the EU, European Supervisory Authorities and consumer and trade associations.

Opening keynote speaker Sven Giegold, MEP, highlighted the Swedish public pension scheme (where Swedish citizens invest their pension savings into a very low cost and high return equity fund by default) as a model for fostering retail investments back into equities.

Guillaume Prache, Managing Director of BETTER FINANCE, who moderated the first panel, stressed that "in 1969 *individual shareholders held close to 40 % of the EU listed companies. By 2012 their share was down to about 13%. A people's capitalism model has evolved into an "Other People's Money" one where financial intermediaries now control the ownership of the EU economy, mainly without their own "skin in the game", leaving EU citizens with the risks instead. Already at a very early stage did Louis Brandeis, one of the founders of the US SEC, identify the problems generated by the "Other People's Money" model, echoed more recently by Professor John Kay in the UK: a decrease of long term ownership, an increase of portfolios' turnovers, a lack of "shareholder engagement, the misalignment of time horizons and of interests between financial intermediaries and the end-investors / beneficial owners, etc*."

With 62% of financial savings by EU households invested in long-term investment products, a significantly larger share of individual investors in small and mid-caps equity markets than large caps, they happen to be less risk-averse and more long-term oriented than institutional investors. Professor Daniel Haguet of EDHEC Business School (link to presentation) also demonstrated that - when given the opportunity, information and access to invest directly in equities - they behave more like "contrarian" investors, as opposed to institutional investors who tend to be mostly "momentum" investors.

But individual investors and savers have been crowded out of equity markets and pushed into fee-laden and too often under-performing" packaged" investment products (see BETTER FINANCE Pensions Report 2017 here). And the fragmentation of equity markets has meant that they have, for all intents and purposes, been limited to data on, and transactions in, regulated venues, while the larger part of transactions are now being executed in the 'dark' by 'professional' players.

BETTER FINANCE made 23 proposals to address this issue back in April 2015 at the inception of the "CMU" initiative (see CMU Briefing Paper here). Some of them have been endorsed by the EC in its September 2015 CMU Action Plan, and then in its June 2017 CMU Mid-Term Review Report. But, as acknowledged by the EC speaker himself, the EU is lagging in its efforts to foster retail investment back into capital markets and to revive an equity culture.

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Improving the transparency of past performance and fees - a 2015 proposal of BETTER FINANCE endorsed by the EC - is key to restore the trust of EU citizens as investors. Both Markus Ferber, MEP and MIFID II rapporteur, and Jung-Duk Lichtenberger, the Deputy Head of the CMU Unit of the EC, acknowledge the serious inconsistencies of the recent EU Rules regarding the disclosure of performance, but did not provide any solution at this stage to solve those.

The hope remains that the PEPP (Pan-European Personal Pension Product) will at last enable EU citizens to invest a much more significant part of their pension savings into equities in a cost effective way ... the Swedish model as mentioned by MEP Sven Giegold.

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