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

21 October 2020 Event

I. Name and contact details

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II. Background

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the European public interest non-governmental organization solely dedicated to the interests of European citizens as savers, individual investors and financial services users at the European level to lawmakers and the public in order to promote research, information and training on investments, savings and personal finances.

BETTER FINANCE acts as an independent financial expertise and advocacy center to the direct benefit of European financial services users. Since the BETTER FINANCE constituency includes individual and small shareholders, fund and retail investors, savers, pension fund participants, life insurance policy holders, borrowers, and other stakeholders who are independent from the financial industry, it has the best interests of all European citizens at heart. As such its activities are supported by the European Union since 2012.

III. Executive summary

"It is the innate conservation of the people that has kept our money good ***in spite of the fantastic tricks which financiers play-and which they cover up with high technical terms.***
The people are on the side of sound money. They are so unalterably on the side of sound money that ***it is a serious question how they would regard the system under which they live, if they once knew what the initiate can do with it****."*
Henry Ford, My life and Work, 1922

BETTER FINANCE thanks very much the ECB for this initiative to reach out to EU citizens as users of financial services and to the "civil society" at large.

We acknowledge the major role of the ECB in addressing many short-term issues arising from the 2008 financial crisis and today from the COVID one.

- **Financial repression at unprecedented highs: middle classes to eventually foot the bill**

However, doing so, the ECB has been leading the charge of an unprecedented "financial repression"[1]. We are concerned that the ECB deliberately favours short-term financial support to banks and governments over saver protection[2], even before the COVID crisis. We agree that the short-term priority in this crisis time should be employment and growth. However, the current ECB policy - with its negative interest rates and capital requirement rules - results in huge subsidies to banks and to Governments, and not conditional upon using those for helping employment and growth, with performance indicators. We believe the ECB should not sacrifice pension adequacy and EU citizens as long term savers for this short term priority, and should pay more attention to the protection **of pension savers** (who comprise a very large part of the population) **and other long-term investors**, when determining the interest rate and monetary policy; especially after the "critical" phase of a crisis has passed. It is not only an economic and social issue, but also a democratic issue. If the sinister 1930s are any guide, financial repression and sacrificing small savers and individual investors means destroying the lifetime savings of the middle classes, and the worthiest ones. And the middle classes are the main pillar of democracy. Sacrificing them is likely to lead again to the rise of anti-democratic forces, violence and misery.

- **Banks have become highly subsidized**

Unprecedented money creation and negative interest rates make banks very dependent of the ECB. Banks have become heavily subsidized by ECB and very dependent upon it. What do EU citizens get for it? In addition, there is no clear and precise disclosure to citizens about theses de facto subsidies. Please use plain English to disclose to EU citizens the volume and price of ECB subsidies to banks : at -0,5 to -1% loans or government bond purchases, it is billions of Euros of direct subsidies with no counterparties asked from the beneficiary privately owned banks. This is quite unique for subsidies granted by a Public authority. Also, these private commercial interests are the only beneficiaries of these subsidies, not the EU citizens. Where is the ethical basis?

- **… with no counterparty provided by the beneficiary banks**

Balance sheets of major EU banks are more and more devoted to forex and interest rate derivatives in sizes that have lost any connection to the real economy and world trade: 13 billion USD are traded every day in forex and interest rates derivatives, and more than 90% by financial institutions alone. What is the benefit for the real economy, for EU citizens? Why is the ECB more and more fuelling those, and not seeming to act on these mammoth, mushrooming and purely financial transactions, which are in addition exempt from the financial transaction taxes, contrary to the much smaller equity transactions by non-financial investors ?

- **ECB funding of governments by printing money grows**

The ECB is funding more and more national governments via direct purchases on the bond markets and via requirements for banks to provide collateral securities to get the subsidized loans. We suspect a very large part of this collateral to be again EU government bonds. We ask the ECB to clearly tell EU citizens how much of each EU Government debt it owns, and how this is funded. These bond holdings are quite unlikely to be paid back. What would happen if the ECB depreciated those?

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[1] The term "financial repression" was introduced in 1973 by Stanford economists Edward S. Shaw and Ronald I. McKinnon. Financial repression comprises policies that result in savers earning returns below the rate of inflation to allow banks to provide cheap loans to companies and governments, reducing the burden of repayments.

[2] https://www.rtl.fr/actu/politique/la-croissance-mondiale-est-precaire-et-fragile-affirme-christine-lagarde-sur-rtl-7799354151

- **ECB also a benefactor to bond dealers**

ECB is still not allowed to buy those bonds directly from Governments (on the primary market that is) which forces it to buy and sell those only on the secondary markets and to go through private intermediaries : the bond dealers. How much is the ECB supporting the bond dealers' business through this? What share of bond dealers' revenues does it provide? How does it ensure fair competition in this market where it is probably a more and more dominant user? Wouldn't acting directly without using private intermediaries save public money? There again, EU citizens would welcome a clear disclosure of the facts.

- **ECB Governance issues**

The governing bodies of the ECB do not include Independent members . We also concur with the conclusion of the Report of the NGO CEO : « *The lack of institutional oversight of the ECB within the EU's decision-making infrastructure may help to explain why the expanding mandate of the ECB has not been matched by a parallel development of its ethics rules. But the independence enjoyed by the ECB makes it all the more important to deal with the danger of regulatory capture posed by the advisory groups*" [3]. A lot a private bank executive populates these advisory groups and almost none from civil society organizations.

One example is in the area of shareholders rights: the AmiSeco (Advisory Group on Market Infrastructures for Securities and Collateral). Its full members seem to include only private financial intermediaries – including non-EU ones - and Public Authorities, without members representing the user-side of securities markets - in particular EU citizens as individual investors. Also, it seems that it has already been decided that the newly created AMI-SeCo sub-group "Corporate Events Group" will be co-chaired by two financial intermediaries, and the existing subgroup on corporate actions is already chaired by a US bank executive. BETTER FINANCE has written a letter[4] to the ECB pointing to these issues.

- **Sustainable ECB finance**

The ECB should request the beneficiaries (banks and EU Governments) of its de facto subsidies ("negative" interest paid by the ECB on its loans to banks and government bond purchases) to allocate a minimum % of these subsidies to activities that improve the ESG issues and held these beneficiaries accountable with reporting on key ESG improvement indicators.

IV. Position on key themes

1. *What does price stability mean to your organisation?*

Background information

The main contribution central banks can make to improving people's welfare is maintaining price stability. You may have heard about our recent measures to help counter the economic impact of the coronavirus pandemic. These have the overall aim of keeping prices stable. If the rate of inflation (the rate at which consumer prices increase on average from one year to the next) is positive, low and stable, this is consistent with price stability. The ECB currently aims at an inflation rate below, but close to, 2% over the medium term.

Some questions to consider in your response:

[3] https://corporateeurope.org/sites/default/files/attachments/open_door_for_forces_of_finance_report.pdf
[4] Attached as annex.

How do changes in general price levels affect your organisation and its members?

- We are an umbrella organisation, but many of the individual members of our member organisations are people who are either:
  a) Long term and pension savers, who are particularly concerned about the purchasing power of their eventual future pensions or
  b) individual investors focused on the long terms real (net) return of their investments.

- In both cases, **the inflation of consumer prices is one of the most important factors affecting the real returns of their pension or non-pension investments.** Furthermore, many are concerned that once they reach pension age (some already have), their 2nd and 3rd pillar pension savings will in many cases be "locked in" as long term annuity payments, which will not keep up with rising prices to the same extent as wages for the working population will.

Is your organisation concerned about either deflation or inflation being too high?

- Either would be a concern. High inflation, as explained above, negatively affects the purchasing power of all in society, and long term and pension savings in particular.
- Deflation on the other hand is ruinous to overall economic activity and society in general, as well as discouraging active investment in stock markets and the real economy, since even savings "under your mattress" would technically be increasing in value. A stable (in the long term), predictable and low rate of inflation would be highly preferred, as long as Public Authorities, including central bankers do not exploit the "monetary illusion" of citizens , and do not disclosed key statistics in real terms (net of inflation) , in particular for savings returns..

For which types of goods and services does your organisation and its members feel the effects of price changes the most?

- We are concerned with long term increase in price of goods and services in general (core inflation) rather than price changes in a particular category. Indeed, we believe that it would be wrong for the ECB or other central banks to concern themselves with short term swings in the nominal inflation rate, such as those caused by temporary changes in key commodity prices (e.g. oil), regardless if this "swing" would be either towards inflation or deflation. **What matters is overall price stability in the long-term** (decades and even generations). In addition, BETTER FINANCE is particularly concerned with pension products that are by essence long-term thus being mostly affected by inflation.

- Findings of our research on *Pension Savings: The Real Return*[5] show **that most long-term and pension savings products did not, on average, return positive performances compared to capital markets, and in too many cases were even destroying the real value for European pension savers i.e. provided a negative return after inflation**.

- We acknowledge that Inflation has declined in recent years in a majority of countries, thus reducing the gap between nominal and real performance. However, over a full

[5] https://betterfinance.eu/wp-content/uploads/Pension-Savings-The-Real-Return-2019-Edition-1.pdf

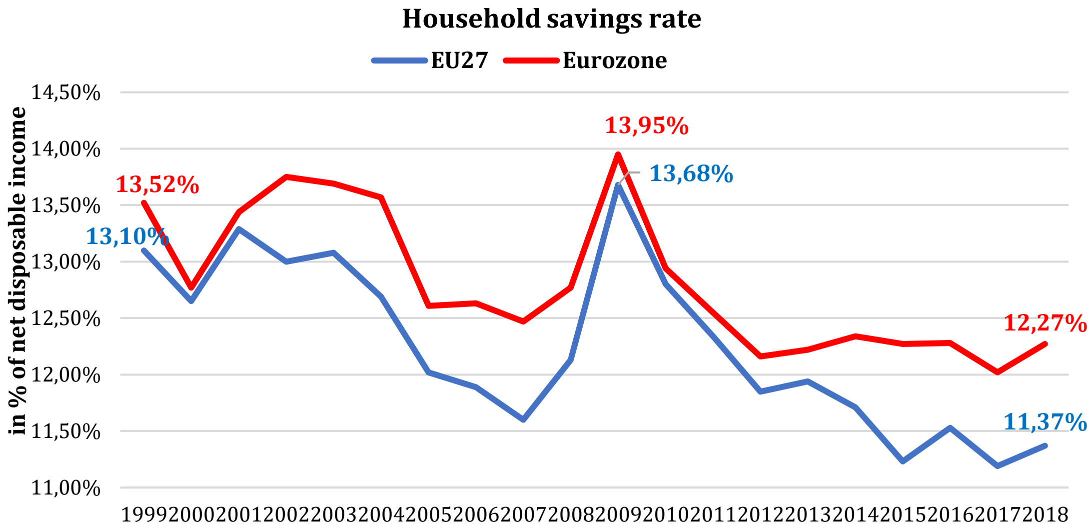
contribution period (40 years), a modest inflation rate can eat even more than 50% of nominal returns. The consequences of the "non-conventional" monetary policies of central banks and the resulting huge increase in money supply on possible market "bubbles" are still unchartered. Otherwise, economic (digitalization and its impact on productivity and employment) and demographic factors plead for a long term decrease in inflation.

- Pension products are by essence long-term and have the longest investment horizon, usually until reaching retirement age, which on average implies at least 20-30 years of investments. The cumulative effect of inflation, assuming even a modest average annual inflation rate of 2% over 40 years would decrease the value of savings by 55%. BETTER FINANCE again highlights and warns about the **"money illusion"** and how detrimental it is to consider pension savings in nominal terms, rather than in real terms, i.e. adjusting by inflation.

When you think about inflation, how relevant to your organisation and its members do you find the increase in the cost of housing?

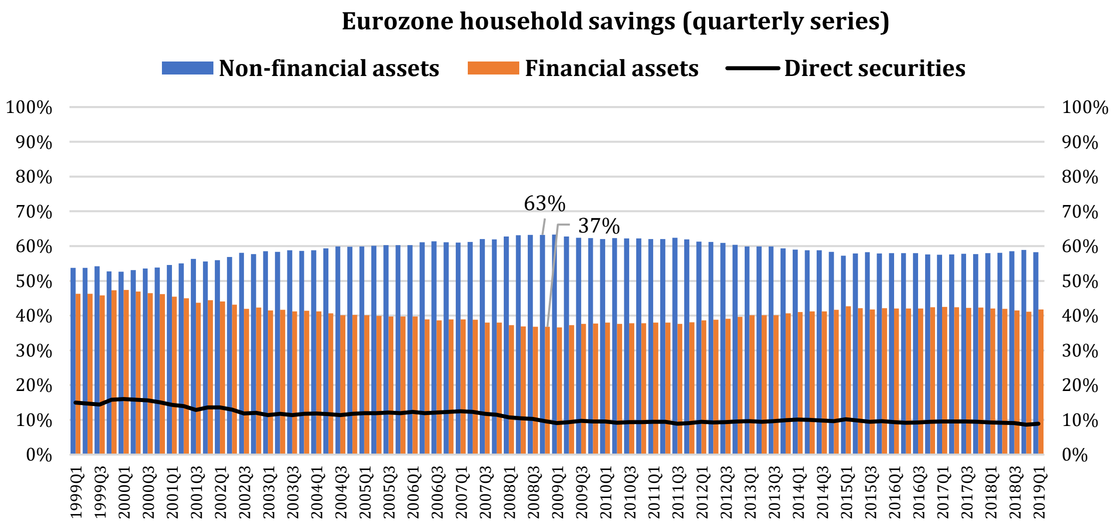
- That significantly depends on the structure of the local housing market and it's regulation, but of course in general, overall high inflation (especially if it translates into the inflationary rise in wages) will tend to lead to faster increases in the cost of housing, with inflation in ancillary costs of buildings (heating, electricity etc) and inflation of wages having the strongest effect on housing prices.
- That being said, it will usually be **young people and young families who are most negatively affected by inflation in housing costs**. This is both because they are less likely to already own their own dwelling and more likely to move due to work, studies or family expansion. Owning your dwelling will tend to lock in long-term housing costs, as either a mortgage or alternative investment costs and people who move regularly will tend to pay rent closer to "market levels" than people who have very long-term rental contracts.
- On the other hand, **real estate is** – alongside long-term financial products – **one of the main categories of non-financial assets most EU citizens save in for retirement purposes**. In fact, the BETTER FINANCE CMU Assessment Report[6] shows that the level of non-financial savings as % of the total savings of Euro-area households is 50% higher than the amount of disposable income directed to financial assets or transferable securities.

[6] See BETTER FINANCE, CMU Assessment Report 2015 – 2019 (November 2019), available at https://betterfinance.eu/wp-content/uploads/CMU-Assessment-Report-2019.pdf, page 20.



Source: BETTER FINANCE own composition based on Eurostat data

- Since 1999, Eurozone households' savings from the net disposable income have decreased and shifted more to non-financial assets. On average in the past 21 years, 59% of Eurozone households' savings were directed to non-financial assets, with a peak during the 2008 global financial crisis which is likely to occur again following the economic strains generated by the COVID-19 pandemic.



Source: BETTER FINANCE CMU Assessment Report 2015-2019

- Out of these savings, our experience from our Member Organisations and pensions research shows that the vast majority of capital is directed to dwellings for the purpose of retirement provision. Therefore, the housing market has a significant impact for EU citizens not only for current consumption purposes, but most importantly since dwellings are used as the primary vehicle for retirement provision by EU pension savers.

2. *What are your organisations' economic expectations and concerns?*

Background information

The ECB conducts monetary policy to make sure that the euro holds its value over time. To make our monetary policy as effective as possible, we want to better understand your organisation and its members' expectations and economic concerns.

Some questions to consider in your response:

What economic concerns are your organisation and its members facing?

- As the COVID-19 crisis unfolds, measures taken by Member States Governments to tackle these public health threats have put a strain on our economies. Our biggest concern, however, are the economic measures taken by Governments and Central Banks to give stimulus to the economy, which we fear will bring significant risks and challenges that will end up on the balance sheets of pension savers.
- Explained in the BETTER FINANCE press release on recent financial policy measures,[7] The ECB and Member States are resorting to a well-known "**financial repression" of EU citizens to provide "quick fixes" for times of economic hardship**.

- To what concerns the Eurosystem, the numerous quantitative easing programmes – under the umbrella of "unconventional monetary policies" – started since March 2010, to which we add the current ECB PEPP (Pandemic Emergency Purchase Programme), will bring about significant Government debt, high inflation rates and, ultimately, strains on public pension systems. We believe this is because the low-yielding sovereign bonds will be "forced" onto the balance sheets of pension funds and life-insurances (through measures such as the solvency capital requirement and the minimum capital requirement in the Solvency II Regulation),[8] which alone will generate low returns for pension savers. Considering the potential growing rates of inflation, the real value of private savings will be even lower.

- For instance, even though three out of four quantitative easing programmes have been finalised – except the Asset Purchasing Programme (APP) which is currently unfolding[9] – there are still €3 trillion in liquidity through ECB refinancing operations at the lowest interest rate ever of -0.75%, allowing for maturity extensions on defaulting bonds that the ECB will pay for at maturity thanks to the negative interest rate. In essence, this amounts to a massive, disguised but direct, subsidy from the ECB to European banks, as it will actually pay the banks to lend them money and this at the tune of billions per year.

- The pensions time bomb was already ticking in Europe, with studies by BETTER FINANCE and the OECD repeatedly demonstrating that recent real returns on long-term investments were already too often negative, and overall insufficient to allow for an adequate replacement income at retirement.[10] **Real (after inflation) pension returns will collapse this year because of the equity markets, and will struggle further in the near future because of financial repression, and possibly even more so if combined with resurgent inflation.**

- Looking at deposits, in the recent years, several banks have even started to impose negative nominal interest rates on large deposits. So, extremely low interest rates are bad news for banks, which in turn might be bad news for economic growth. The upshot is a vicious cycle that pulls interest rates further and further down.

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[7] https://betterfinance.eu/wp-content/uploads/PR-CORONA-PENSIONS-BETTER-FINANCE-and-CFA-Institute-call-for-Measures-to-protect-pension-contributions-savings-and-pay-outs-230420.pdf
[8] https://betterfinance.eu/wp-content/uploads/PR_-_Solvency_II_Capital_Requirement_-_121118.pdf
[9] On 12 March 2020 the ECB Governing Council decided to add "a temporary envelope of additional net asset purchases of €120 billion" until the end of 2020
https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html#:~:text=The%20ECB's%20Asset%20Purchase%20Programme,policy%20accommodation%20needed%20to%20ensure
[10] https://betterfinance.eu/wp-content/uploads/PR-PENSIONS-INADEQUACY-25092019.pdf

Note that this criticism of the ECB's expansionary policy does not relate to short-term bouts of expansionary policy during times of crisis (the global financial crisis, the sovereign debt crisis in certain member states that followed or the current corona crisis). Extraordinary measures are needed in extraordinary times. However, as stated above, we consider it very troubling that the ECB seems to have made negative interest rates the "new normal" and kept them even as the Eurozone economy was recovering and at reasonable strength. It is also a major concern that so far, this policy benefits commercial banks, not EU citizens , as these beneficiaries of ECB policy and subsidies ("negative" interest paid by the ECB on its own loans) are unconditional, which is quite unique for public subsidies.

How have changing economic conditions affected your organisation over the last decade and especially in the current economic crisis caused by the coronavirus pandemic?

- In the last decade, it has become more and more difficult for savers to achieve reasonable long-term real returns without taking risky investment strategies. This has the double effect of decreasing the returns of pensions savers (especially affecting those close to retirement or with limited financial knowledge, who would ordinarily prefer "safer" asset classes) and discouraging long-term investment in general, especially for households. These two affects in turn serve to only increase the risks stemming from the "pension time bomb" looming over Europe. Reasons discussed in the previous answer.

How do low interest rates and monetary policy in general affect your organisation, its members and the economy overall?

- With interest rates at historical lows (sometimes even negative), the vast Corona-induced fiscal and monetary stimulus packages financial repression will deepen, with negative or close to zero real interest rates becoming the norm. This unprecedented money creation, combined with tensions in the logistics chains are likely to generate a significant upsurge in inflation, further eroding the purchasing power of pension savings and income.

- **The pensions time bomb is already ticking in Europe,** with previously mentioned studies by BETTER FINANCE and the OECD demonstrating that recent real returns on long-term investments were already too often negative, and insufficient for an adequate replacement income upon retirement.[11] Real (after inflation) pension returns will collapse, mainly because of stressed equity markets but also because of the low interest in government bonds, and will struggle in the near future because of financial repression, and possibly even more so if combined with resurgent inflation.

- Therefore, from BETTER FINANCE's perspective one of the crucial issues that needs attention is pensions adequacy, among others in relation to pension plans sustainability, at the backdrop of changing population structures and the low interest rate environment. **The discontinuity risk of pension plans may incur macro stability risks, this in turn may impact the economies of Member States to a different degree.** Since some Member States are now trying to exceptionally allow pension savers to redeem some or all of their pension money to address immediate

[11] https://betterfinance.eu/wp-content/uploads/PR-PENSIONS-INADEQUACY-25092019.pdf

consumption needs, sacrificing the long term sustainability and adequacy of pensions to short term issues, BETTER FINANCE has recommended offering the possibility to all EU life insured and personal pension savers to differ periodic / regular contributions or premiums with no penalty or fees, but not to deplete the existing pension pots, especially for the most vulnerable citizens.

- The ECB should also consider the effect of monetary policies on the level of indebtedness of the households. For example, mortgages have a big impact on the personal finances of households (in 2017, mortgages represented 77% of the indebtedness of EU households.)[12] The increasing trend of indebtedness is due to prolonged low interest rate that can bring serious risks for households and the economy. The situation is also aggravated by poor creditworthiness assessment practices and misleading marketing practices.[13]

3. *What other topics matter to your organisation?*

Background information

The ECB's main task, its "primary objective", is to maintain price stability in the euro area. However, once price stability is guaranteed, it is the ECB's task to support the general economic policies of the European Union. These include, for example, the sustainable development of Europe based on balanced economic growth, a highly competitive social market economy aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment.

Some questions to consider in your response:

Does your organisation think the ECB should give more or less attention to other considerations and why?

- We are concerned that the ECB chair, just before taking her current position declared that one should favor employment and growth over saver protection[14], and that was even before the COVID crisis. First, we agree that the short-term priority in this crisis time should be employment and growth. However, it is challenging to see how the current ECB policy is actually achieving this as its huge subsidies to banks are blank checks, not conditional upon using those for helping employment and growth, with performance indicators. Second, we believe the ECB should not sacrifice pension adequacy and EU citizens as long term savers for this short term priority, and should pay more attention to the protection **of pension savers** (who comprise a very large part of the population) **and other long-term investors**, when determining the interest rate and monetary policy. Especially in after the "critical" phase of a crisis has passed. It is not only an economic and social issue, but also a democratic issue.

[12] https://eba.europa.eu/sites/default/documents/files/documents/10180/2551996/75e73a19-d313-44c9-8430-fc6eca025e8b/Consumer%20Trends%20Report%202018-19.pdf
[13] Ibid.
[14] https://www.rtl.fr/actu/politique/la-croissance-mondiale-est-precaire-et-fragile-affirme-christine-lagarde-sur-rtl-7799354151

As very painful historical experiences demonstrate, financial repression and sacrificing small savers and individual investors means destroying their lifetime savings of the middle classes, and the worthiest ones. And the middle classes are the main pillar of democracy. Sacrificing them is likely to lead again to the rise of anti-democratic forces.

- We are concerned about the growing dependence of EU private banks with the ECB, and with the now probably dominant role in the sovereign bond secondary markets private dealers.

- BETTER FINANCE annual research report on Pension Savings[15] proves again, **the EU citizen too often does not achieve, in the end, decent net returns on his investments**. In addition, he/she is not usually aware of this. Therefore, in order to raise citizens' awareness and encourage them to look for alternative better performing products, the truth should be communicated clearly. As pension products are by essence long-term (investment horizon of at least 20 years), key mandatory disclosures and public authorities' reporting must cover at least a period as long, or since inception – whichever is earlier – in order to reflect the characteristics of retirement provision vehicles.

Are there other issues not mentioned above that your organisation thinks the ECB should be concerned with when setting its policies?

- **Governance issues:** The governing bodies of the ECB do not include Independent members . We also concur with the conclusion of the Report of the NGO CEO : « *The lack of institutional oversight of the ECB within the EU's decision-making infrastructure may help to explain why the expanding mandate of the ECB has not been matched by a parallel development of its ethics rules. But the independence enjoyed by the ECB makes it all the more important to deal with the danger of regulatory capture posed by the advisory groups*" [16] . A lot of private bank executives populate these advisory groups and almost none from civil society organizations.

- One example is in the area of shareholders rights: the AmiSeco (Advisory Group on Market Infrastructures for Securities and Collateral). Its full members seem to include only private financial intermediaries – including non-EU ones - and Public Authorities, without members representing the user-side of securities markets - in particular EU citizens as individual investors. Also, it seems that it has already been decided that the newly created AMI-SeCo sub-group "Corporate Events Group" will be co-chaired by two financial intermediaries, and the existing subgroup on corporate actions is already chaired by a US bank executive. BETTER FINANCE has written a letter[17] to the ECB pointing to these issues.

[15] https://betterfinance.eu/wp-content/uploads/Pension-Savings-The-Real-Return-2019-Edition-1.pdf
[16] https://corporateeurope.org/sites/default/files/attachments/open_door_for_forces_of_finance_report.pdf
[17] Attached as annex.

How will climate change have an impact on your organisation, its members and the economy?

- We strongly believe climate change is a huge risk to our individual members and their ability to one day enjoy their retirement or the fruits of their long-term investments. Indeed, it's the biggest risk to the wellbeing of all humans on the planet that have a life expectancy of more than a decade.

- For this reason, we advocate strongly for increased use and better regulation of **sustainable investment and impact investing**. Anything the ECB could do to help with this would be very welcome and appreciated.

- We consider that the fight against climate change would need a huge effort also in terms of funding. We welcome the European Green Deal as a good instrument to decarbonize the EU economy, but ambitious tools need to meet ambitious means.[18]

- The ECB should demand to the beneficiaries (banks and EU Governments) of its outright subsidies (loans or via sovereign bond purchases at negative interest rates) to allocate a minimum % of these subsidies to activities that improve the ESG issues.

4. How can we best communicate with your organisation?

Background information

We know that understanding how monetary policy works helps people make decisions about how to spend, save, invest or borrow money. We would like to find out how successful we have been in explaining what we do and why we do it.

Some questions to consider in your response:

To what extent does your organisation feel informed about the ECB, for example, concerning the recent measures taken in response to the coronavirus crisis?

- There's a lack of information available for EU Citizens as stakeholders on issues that directly affect them. Whereas for several years now most EU Citizens have heard of Quantitative Easing measures taken by the ECB, as well as the continued lowering of interest rates, there is little or no information on the impact these measures have on citizens' pensions, their purchasing power, etc.

- It is very hard to find key facts like:
  - The amounts of sovereign debt owned and purchased by Member State and at what price (equivalent yield), how much gores to private bond dealers, etc. should be published regularly in plain English
  - Same for the amount of direct and indirect subsidies to banks (negative interest on its loans, i.e. where the ECB pays the banks to borrow).
  - What are the benefits for the real economy and for EU citizens of these massive ECB subsidies to banks and to Governments ?

[18] https://betterfinance.eu/publication/high-level-debate-on-the-ambitious-but-vague-european-green-deal-will-it-provide-eu-citizens-with-sustainable-value-for-money/

- Most EU citizens in their capacity as savers and investors would also struggle to understand the relation between the ECB and the real economy and have no information on how, or whether, ECB measures help their intended end-beneficiaries such as pensioners and small and medium-sized enterprises.

How could the ECB/ Eurosystem improve the way it explains the benefits of price stability and the risks of inflation being too high or too low?

- **ECB could co-operate more with civil society organisations and foundations to help increase financial knowledge and literacy in general**, as well as provide more easy-to-understand information on the issues of the Eurosystem and price stability. Plenty of organisations across the continent are already working on those topics, but they are often limited by a lack of recourses, especially in terms of funding, while other initiatives - funded by the industry - may be seen as biased. Engaging with consumer and investor NGOs directly and through ECB member banks - for example through a competitive tender programme for financial education projects (similarly as many EU institutions already co-operate with civil society) - would enable the ECB and its member banks to greatly increase the dissemination of financial knowledge and reach target groups that they struggle to reach directly.

- Reply to the letters from civil society organizations with a reasonable timing (see previous section on governance).

- In addition, co-operation with independent civil-society initiatives and activists "on the ground" would provide enhanced credibility to these education efforts, which is especially critical at a time when anti-establishment and anti-institutional bias as well as euro-scepticism is unfortunately at a high-ebb in many sectors of European society and when mistrust in the ECB and the euro itself is almost mainstream in certain member states (especially those worst hit by the financial crisis and associated sovereign debt crisis).

What could we do to improve understanding of the decisions we take and how they affect your organisation and its members?

- More and clearer information should be disseminated in cooperation with civil society organisations to explain how monetary policy impacts society at large and the financial situation of EU citizens as individual savers and investors, borrowers, independent workers. This information should avoid overly technical jargon and explain the reasoning and intended impact of different policies in layman's terms.

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We hope very much that you will take these comments as constructive and as a token of our strong willingness of dialogue towards a better and more sustainable EU for the people.

ANNEX: 30 August 2020 letter from BETTER FINANCE to ECB

Mr. Ulrich Bindseil
European Central Bank
Chair, Advisory Group on Market Infrastructures for Securities and Collateral
60640 Frankfurt am Main
Germany

Re: 30 July 2020 Letter from the chair of AMI-SeCo Corporate Events Group – establishment and call for membership applications

Dear Mr. Bindseil

We thank you very much for inviting BETTER FINANCE to nominate candidates to join the new "Corporate Events Group" (CEG), a substructure of the European Central Bank's AMI-SeCo.

To finalise our response to this invitation, we would kindly welcome some clarifications on the targeted membership, governance and mandate of the CEG.

- **Targeted membership of the CEG**

Indeed, your letter refers to BETTER FINANCE as an "industry group". BETTER FINANCE – the European Federation of Investors and Financial Services Users - is a not for profit European NGO acting as an independent expertise center and representing the interests of EU citizens as individual investors and financial services users. As such, BETTER FINANCE has experts selected by EU institutions as members of such advisory groups as the European Commission, ESMA, EIOPA, EBA, EFRAG, etc. But it is not an industry group or organisation.

Also, the documents attached to your letter seem to state that BETTER FINANCE is an industry association, has been a member of the BSG, and has been involved in the governance of the CAJWG. This is not the case.

BETTER FINANCE is very willing to participate to advisory bodies whose decisions impact individual investors in securities, but would need to know if the AMI-SeCo and the CEG are actually aiming at involving such non industry but key stakeholders as non-professional individual investors. This leads us also to the understanding of the governance of the CEG.

- **Governance of the CEG**

We understand that CEG would be a sub-group of AMI-SeCo. Full members of the latter seem to include only financial intermediaries and Public Authorities, without members representing the user-side of securities markets - in particular EU citizens as individual investors, or issuers.

Also, it seems that it has already been decided that the CEG will be co-chaired by two financial intermediaries.

The nomination process of CEG members would also seem to be exclusively controlled by financial intermediaries, and candidates are nominated by AMI-SeCo, national stakeholders groups and "all relevant industry associations"; apparently not involving the user-side of securities markets, i.e. the non financial investors and the issuers.

This would be a different governance than the one established by EU rules for other financial consultative groups which is based interalia on the principle of balanced representation between the financial industry and other stakeholders such as individual investors and other users. This dates back from the 2008 financial crisis up too when EU Authorities were only discussing with the financial industry. Another recent example is the EC High Level Forum on the Capital Markets Union where the sub-group on "*shareholder identification, exercise of voting rights and corporate actions*" did include non-financial industry members representing investors and issuers, including BETTER FINANCE.

- **Mandate of the CEG**

We understand the role of the CEG is about the monitoring of the compliance with the "Corporate Actions" standards.

However a document attached to your letter mentions that "*the CEG's responsibilities could include the monitoring and assessment of the implementation of, and compliance with, additional standards, e.g. the Shareholder Rights Directive II (SRD2) related standards and the General Meeting standards endorsed by the JWG.*"

"Corporate actions" standards other than involving the exercise of voting rights, in particular those involving cash have been functioning rather well for individual investors, like the payment of investment income to the relevant beneficiary and in a timely manner.

This is however not true for general meeting processes, and individual investors are extremely interested, impacted by- and involved in those processes and standards, and in the execution of their shareholders' rights especially voting rights. The exercise of voting rights has been largely a failure in the EU for decades, in particular for exercising voting rights cross-border[19]. As a consequence, the Implementing Regulation (IR) to SRD II was introduced. This IR was mainly prepared by the Commission's Expert Group on Technical Aspects of Corporate Governance Processes, a group which consisted of all involved stakeholders, including one individual investors' representative.

We wonder whether the mandate of the CEG, which seems to derive from the Ami-Seco mandate[20], covers also general meeting processes, as these are not financial processes per se and are not related to securities infrastructures or collateral management. In our opinion, a clear distinction has to remain between corporate actions comprising corporate events of a financial nature and corporate actions related to general shareholders meetings – a distinction that has already been made by the SRD II IR, and also in the Final Report of the High Level Forum on Capital Markets Union. This clear distinction should also be reflected in our view in the mandate of the CEG.

We would welcome a call with you or your colleagues for us to get a better understanding of these points, which would then enable us to finalize our position with regard to our possible contribution to the CEG.

Best regards,

Guillaume Prache

Managing Director

c.c. Axel Kleinlein, President

[19] See for example https://betterfinance.eu/publication/barriers-to-shareholder-engagement-a-report-on-cross-border-voting/
and the June 2020 report of the European Commission's High Level Forum on the Capital Markets Union, *Recommendation on shareholder identification, exercise of voting rights and corporate actions (pages 79-81).*
[20] https://www.ecb.europa.eu/paym/groups/ami/shared/pdf/ami_seco_mandate.pdf