

## BETTER FINANCE RECOMMENDATIONS

for the Economic and Monetary Affairs (ECON) Committee's own initiative report on the

### ***Further Development of the Capital Markets Union (CMU): Improving Access to Capital Market Finance, in particular by SMEs, and Further Enabling Retail Investor Participation***

2020/2036 (INI)

BETTER FINANCE – one of the only two individual user side members of the European Commission's "High Level Forum on the CMU" – firmly advocates for a Capital Markets Union (CMU) that "*Works for people*" and focuses on EU citizens as – by far – the largest source of long-term, sustainable funding for the real economy. The CMU project must be attractive for pension savers and for individual, non-professional investors and enable them to receive adequate advice, become again co-owners of the EU economy, engage with investee companies for a sustainable future and for decent long-term returns on their investments ("sustainable value for money").

In line with the proposals made to the [Next CMU High Level Report](#)<sup>1</sup> (2019) and for the [Final Report of the High-Level Forum on the Future of the CMU](#)<sup>2</sup> (2020), BETTER FINANCE proposes several **key recommendations** to ensure that the CMU project will take off and create value for EU citizens.



### **SAVERS & INVESTORS**

- **ban biased investment advice (MiFID II/IDD) or at least implement the HLF CMU recommendations**
- harmonise the "shareholder" definition (SRD II)
- **ensure direct individual investors are covered by the collective redress directive (MAR/SRD II in the Annex)**
- support **the development of Employee Share Ownership** as the most powerful instrument to restore European citizens as co-owners of their economy



### **FINANCING BUSINESSES & INNOVATION**

- **support the creation of a pan-EU IPO fund** with developing broad small and mid cap indices enabling individual investors to engage;
- support the IPO transitional periods
- enforce transparency rules on the now dominant "dark" equity market venues, or prevent those accessing "retail" trades



### **FINANCIAL EDUCATION**

- **use Employee Share Ownership as the most effective form of workplace education for EU citizens**
- introduce financial education in the school curricula: re-instate/include **basic financial mathematics** (compounding interest, returns and annuities) and **capital markets** (shares and bonds) as minimum requirement for European school curricula



### **SUSTAINABLE FINANCE**

- **ensure that the taxonomy is complete (covering E, S and G), not helping greenwashing and science based.**
- address short-termism and shareholder engagement barriers in corporate governance of both issuers and investors
- stimulate impact investing as a specific investment strategy that uses indicators to measure and assess the environmental and social impact of an investment



### **LONG-TERM INTRA-EU INVESTMENTS**

- tax to incentivise long-term sustainable investments and not incentivize purely financial transactions such as forex and interest rate derivatives.
- introduce a common, standardized, EU-wide system for withholding tax relief at source (end double taxation within the EU)



### **DIGITALISATION**

- **establish independent savings products data bases and web comparison tools** which imply standardized Key Information on actual costs, performances and risks ("garbage in - garbage out").
- **enable individual shareholder engagement** within the EU by voting or giving power to a proxy with one's smartphone.

<sup>1</sup> See BETTER FINANCE Press Release on the NextCMU report here: <https://betterfinance.eu/wp-content/uploads/PR-Capital-Markets-Union-given-a-New-Breath-of-Life-17102019.pdf>.

<sup>2</sup> See BETTER FINANCE Press Release on the HLF CMU report here: <https://betterfinance.eu/wp-content/uploads/PR-HLF-CMU-Report-European-Savers-one-step-closer-to-getting-Sustainable-Value-for-their-Money-10062020.pdf>.

BETTER FINANCE proposes the following amendments to the ECON Committee's [own initiative report](#) (*italicised bold* are BETTER FINANCE's additions).

Section	Proposed amendment
<b>(new) preamble point</b>	<b>(new) D.</b> <i>Wishes to further build on the significant progress made by the EU in better regulating capital markets and increasing investor protection since the 2008 financial crisis.</i>
<b>(new section) Empowering EU citizens as financial services users</b>	<p><b>(new) 1.</b> <i>Taking note of the increased efforts of EU authorities to improve consumer and investor protection, the voices of EU citizens are still underrepresented in EU financial rule-making, which is predominantly influenced by financial industry and its professional associations.</i></p> <p><b>(new) 2.</b> <i>Calls on the European Commission to assess the composition of the European Supervisory Authorities' stakeholder groups in view of ensuring a balanced representation between professionals and users of financial services.</i></p>
<b>(new section) Sustainable Finance</b>	<p><b>(new) 3.</b> <i>Acknowledging both the strong preference of EU citizens to sustainable investments delivering a positive impact; calls on the European Commission to ensure that the taxonomy is complete (covering both E, S, and G) and science-based in order to avoid "greenwashing".</i></p> <p><b>(new) 4.</b> <i>Calls on the European Commission to investigate measures to address short-termism of professional investors and eliminate barriers to shareholder engagement in corporate governance.</i></p> <p><b>(new) 5.</b> <i>Supports the stimulation of impact investing as a specific investment strategy that uses indicators to measure and assess the environmental and social impact of an investment.</i></p>
<b>Financing businesses</b>	<p>4. <i>Maintaining a sufficient level of risk retention for securitisations is key for safe securitisations</i>; requests the realignment of the treatment of cash and synthetic securitisations, of the treatment of regulatory capital and liquidity with that of covered bonds and loans, as well as with the disclosure and due diligence requirements for covered bonds and simple, transparent and standardised (STS) securitisation;</p> <p><b>(new) 5.</b> <i>An unintended effect of MiFID 2 was the migration of equity trading from regulated venues ("lit markets") to much less transparent "systematic internalisers" or over-the-counter trading ("dark pools"); acknowledging the need to increase trading transparency and the trust of retail investors, call on the European Commission to review the transparency regime for equity and equity-like instruments.</i></p>
<b>Promoting long-term and cross-border investments and financial products</b>	<p>6. Asks the Member States to amend their national tax frameworks, in order to reduce tax obstacles to cross-border investments, <i>introduce a common, standardized, EU-wide system for</i> including withholding tax <i>relief at source</i> procedures, and to increase financing by investors to long-term investment opportunities thereby improving returns on long-term savings for EU citizens;</p> <p><b>(new) 7.</b> <i>Tax to incentivise long-term sustainable investments and not incentivize purely financial transactions such as FOREX and interest rate derivatives; calls on the European Commission to issue a recommendation for EU Member States to harmonise tax regimes for cross-border long-term investments.</i></p>
<b>Retail investors</b>	<p><b>(new 15).</b> <i>European citizens as equity investors suffer detriment from the divergent definitions of "shareholder" under national laws, on many occasions not being allowed to exercise voting rights and engage with investee companies; calls on the European Commission to adopt an EU-wide "shareholder" definition for the purpose of the exercise of shareholders rights.</i></p> <p>16. Recalls the existence of different shortcomings in the legislation on packaged retail investment and insurance products (PRIIPs) that should be addressed in the next review, <i>for which acknowledges the need to further postpone the UCITS exemption until the Level 1 review is finalised</i>; expects that Level 2 PRIIPs legislation on the Key Investor Document to respect level 1, in particular in relation</p>

	<p>to the performance scenarios; regrets the delays in the adoption of Level 2 PRIIPs legislation that will overlap with the first review of PRIIPs, and which increases legal uncertainty and costs for stakeholders.</p> <p><b>(new) 16.</b> <i>EU citizens as investors must be empowered with appropriate tools for collective redress; notes the number of class action cases initiated in the Wirecard AG scandal, which would not be covered by the proposed EU collective redress directive; therefore, calls on the co-legislators to ensure that direct individual investors are covered by the Directive on representative actions for the protection of the collective interests of consumers by adding the Market Abuse Regulation (MAR) and Directive (MAD) and the Shareholder Rights Directive (SRD2) into the Annex.</i></p> <p><b>(new) 17.</b> <i>Acknowledges that Employee Share Ownership is one of the most powerful tools to boost equity culture and financing of the EU economy and its resilience to crises and shocks, as well as to empower EU citizens as co-owners of their economy; calls on the European Commission to propose promoting awareness throughout the EU of employee share ownership, which must also be tax incentivised at Member State level.</i></p> <p>19. <i>Retail investors suffer every year from the detrimental effects caused by “non-independent” investment advice and from the bias towards fee-laden, packaged products; calls for amendments to legislation to ensure full and easy access to independent advice by banning “inducements” under MiFID 2 and IDD for “execution only” investments, and align IDD inducement rules to those of MiFID II.</i> <small>by financial intermediaries while avoiding promotion of the institution’s own financial products and ensuring a fair marketing of financial products;</small></p>
<p><b>Financial education</b></p>	<p>22. Urges the Member States to include financial literacy programs in school curricula aimed at developing autonomy in financial matters: <b>re-instate or include basic financial mathematics (compounding interest, returns and annuities) and basics on capital markets (equities and bonds) as minimum requirements for European schools’ curricula;</b> suggests the inclusion of these topics in the Programme for International Student Assessment (PISA) study;</p> <p><b>(new) 23.</b> <i>Acknowledges that Employee Share Ownership programmes are the most effective form of investment education for adult EU citizens and supports raising awareness and the promotion of such tool.</i></p>
<p><b>Digitalisation</b></p>	<p><b>(new) 25.</b> <i>Retail investors are in dire need of objective and comparable online tools in order to make informed investment decisions; calls on the European Commission, with the help of the European Supervisory Authorities, to establish independent savings products databases and web comparison tools based on accurate, fair, and not misleading standardized key information on actual costs, performances and risks.</i></p> <p><b>(new) 26.</b> <i>Increasing retail investors’ participation in capital markets, democratising finance and improving engagement with investee companies in view of developing sustainable finance requires tapping on the potential of digitalisation and bringing capital markets “at the fingertips” of individual investors; as such, the European Parliament supports the development of voting or proxy voting for individuals on mobile devices.</i></p>

**Contact:**

Guillaume Prache, Managing Director, [prache@betterfinance.eu](mailto:prache@betterfinance.eu)  
Aleksandra Maczynska, Executive Director, [maczynska@betterfinance.eu](mailto:maczynska@betterfinance.eu)  
(+32) 25 14 37 77  
Rue d’Arenberg 44, 1000 Brussels, Belgium

**About BETTER FINANCE**

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the public interest non-governmental organisation advocating and defending the interests of European citizens as 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. It is the one and only European-level organisation solely dedicated to the representation of individual investors, savers and other financial services users.

BETTER FINANCE acts as an independent financial expertise and advocacy centre 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.