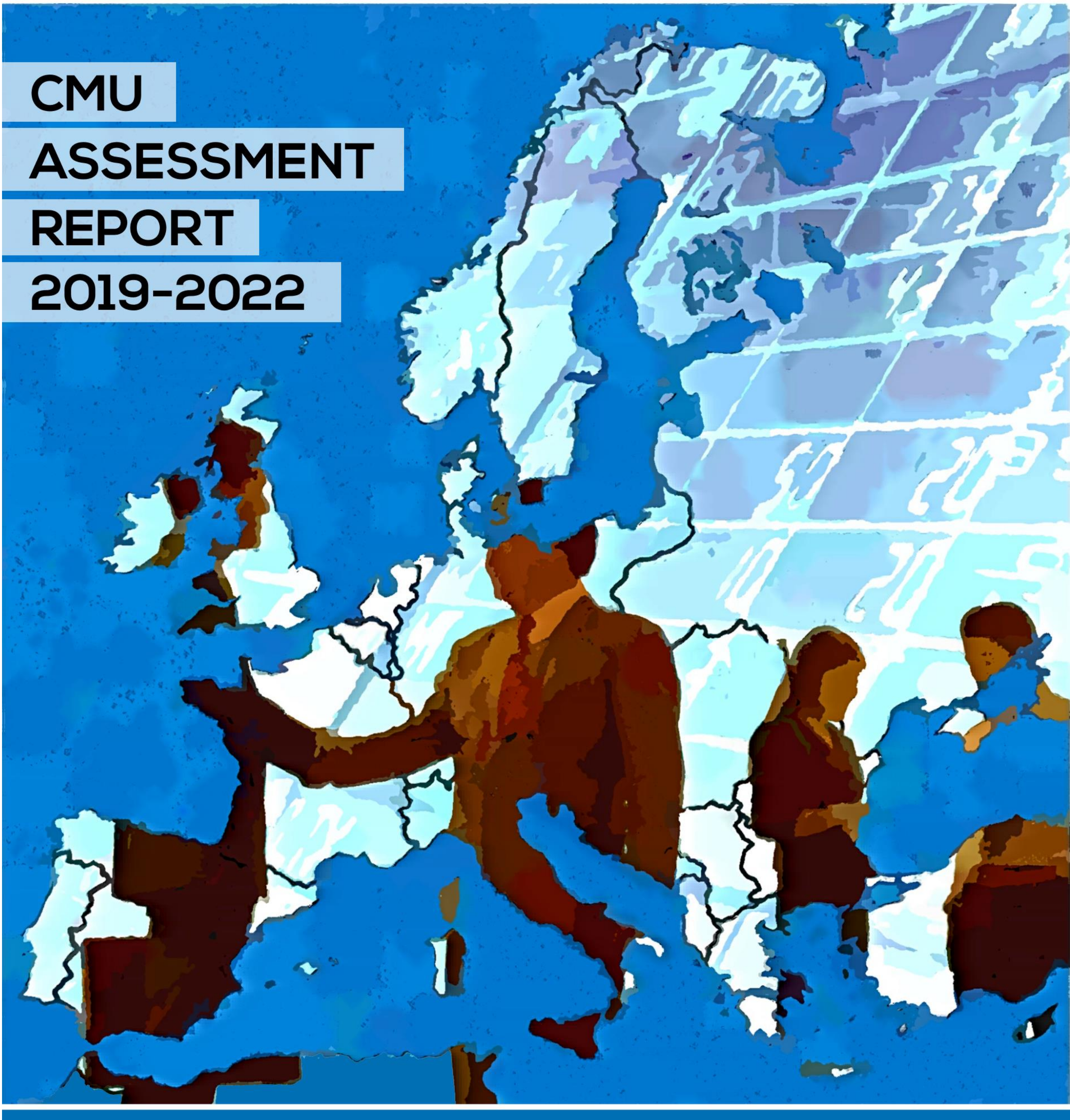
BETTER FINANCE

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



CMU ASSESSMENT REPORT 2019-2022

A Capital Markets Union "that works for people"

CMU Assessment Report 2019-2022

Building a Capital Markets Union "That Works for People"

November 2022

"The economic purposes of securities markets are to meet the needs of companies and savers".

- John Kay, Other People's Money (2021)

"*Respondents who trust the European Union are more likely to invest in capital markets and diversify their savings*".

- Elizabeth Beckmann, David Salvatore Mare[1]

"*An effective capital markets union is not possible without involving and attracting EU citizens as individual investors*".

- Opinion of the European Economic and Social Committee[2]

"We need a well-functioning market for retail investment that is transparent, competitive, and cost-effective for consumers".

- Valdis Dombrovskis, Vice-President of the European Commission[3]

"Let's finally complete the Capital Markets Union!"

- Ursula von der Leyen, European Commission President, Address to the European Parliament[4]

A BETTER FINANCE Research Report

[1] Elisabeth Beckmann, Davide Salvatore Mare, 'Formal and Informal Household Savings: How Does Trust in Financial Institutions Influence the Choice of Saving Instruments?" (1 August 2017) https://mpra.ub.uni-muenchen.de/81141/1/MPRA_paper_81141.pdf.

[2] Opinion of the European Economic and Social Committee on the 'Green Paper on Building a Capital Markets Union' (COM(2015) 63 final), point 3.7, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52015AE1333.

[3] Valdis Dombrovskis, Opening Speech at the Public Hearing on making the Capital Markets Union work for Retail Investors, Brussels, 29 June 2018.

[4] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, A Capital Markets Union for People and Businesses - New Action Plan (Brussels, 24 September 2020), COM(2020) 590 final, p. 1, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2020:590:FIN.

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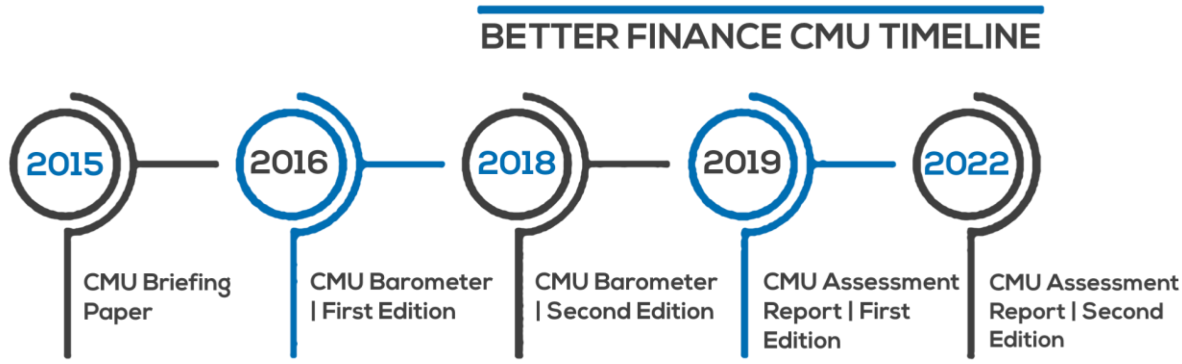
Methodological note: Given the departure of the United Kingdom from the European Union as of 1st of January 2020, EU-related statistics have been changed from EU28 to EU27 (2020 composition); thus, all relevant statistical data suites have been changed compared to the previous edition of this report and no longer include the United Kingdom.

EXECUTIVE SUMMARY

This report updates the 2019 assessment of the progress achieved in establishing a Capital Markets Union (CMU). BETTER FINANCE chose to update this report on the “eve” of the European Commission’s completion of the EU Strategy for Retail Investors[5] as the new political promise is to “*finally complete the Capital Markets Union*” as a project that “*That Works for People*”.

So far, the road to CMU took more effort on defining what the CMU should look like rather than actually building it. The first CMU Action Plan was launched in 2015 in the aftermath of two financial crises. A mid-term review (2017), the NextCMU initiative (2019), the High-Level Forum on the CMU (2020), the new CMU Action Plan (2020), and a European Parliament’s Report (2020) have since been published.

Our activity timeline



Source: © BETTER FINANCE, 2022

How do we monitor progress?

This report is based on the initial five key performance indicators (KPIs) used to assess whether CMU policy actions reached their purpose. With this update, we added two additional KPIs to reflect developments in EU capital markets: *coherence of sectoral legislation* and *sustainable finance performance*.

All KPIs analysed by BETTER FINANCE are correlated to objectives and actions under the 2020 CMU Action Plan proposed by the European Commission and the objectives for the EU Strategy for Retail Investors.

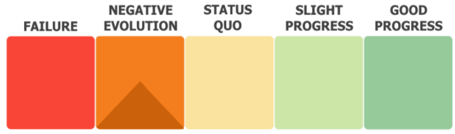
Report structure

Given the large amount of data (tables, charts, graphs) we use as metrics to evaluate each of the seven indicators, we segregated the reports in two chapters: analysis (current document) and the Statistical Annex (available here).

Each KPI comprises a table with a short explanation and analysis of all the metrics used to evaluate progress, which are referenced in the Statistical Annex. Each table, chart, or graph comprises a link to its web version in order to facilitate accessibility.

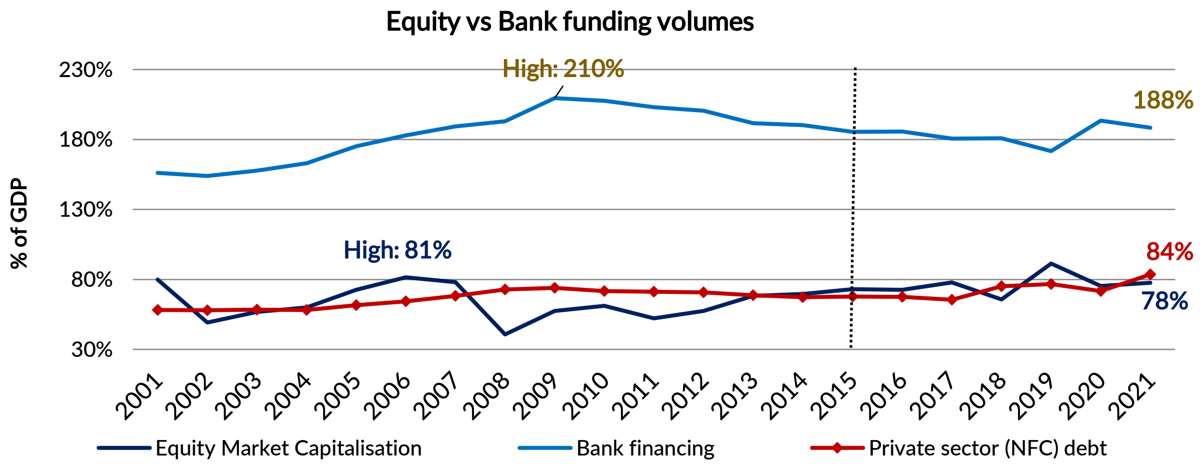
[5] See the European Commission’s Website, *Published Initiatives: EU Strategy for Retail Investors* (accessed 11 May 2022) available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12755-EU-strategy-for-retail-investors_en.

KPI 1 - Equity Market Funding vs Bank Funding

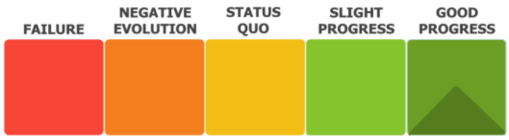


Status: Negative evolution

In the 2019 edition, this was the only KPI that recorded slight progress as capital market financing for the EU economy slightly increased over 2015-2018. Few years later, despite a "retail" investing surge observed throughout 2020-2021, the situation did not further improve: the funding capacity of EU capital markets deteriorated whilst reliance on the banking sector increased. We then conclude that, up to 2021, this KPI recorded a negative evolution.

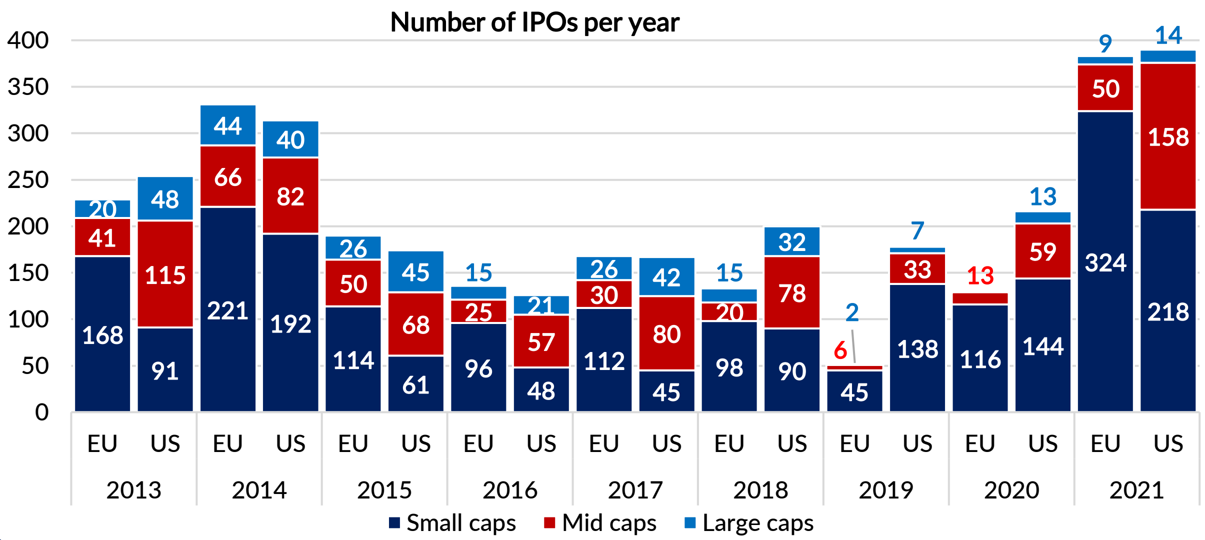


KPI 2 – SME participation in capital markets



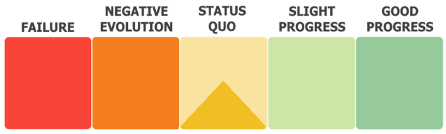
Status: Good progress

In relation to SME's access and availability to funding on EU's capital markets, we note that – with a few exceptions – it seems that the number of IPOs and the total value of funds raised on capital markets has grown significantly since 2015 by the end of 2021. As such, BETTER FINANCE marks this KPI as good progress.[6]



[6] The views of other stakeholders, particularly those primarily concerned with SMEs, may differ.

KPI 3 – Retail investments in capital markets



Status: Status quo

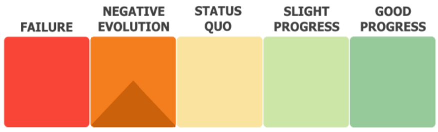
The structure of EU households' financial savings, overall, has not improved as envisaged by the CMU Action Plan, despite a new, significant wave of previously inactive investors arriving to EU capital markets during the two years of pandemic, notably investing in listed shares and ETFs, and despite a favourable price effect in listed equities and bonds over the period, the structure of EU households' financial savings, in overall, has not improved as envisaged by the CMU Action Plan. Non-professional investors still keep most of their savings in banking (31%) or packaged investment products (42%), a trend which has not changed since 2012. We remarked very small fluctuation in the distribution of savings across asset classes. As such, we evaluate this KPI as a stagnating compared to the status in 2015.

Table 21. EU27 households' financial savings

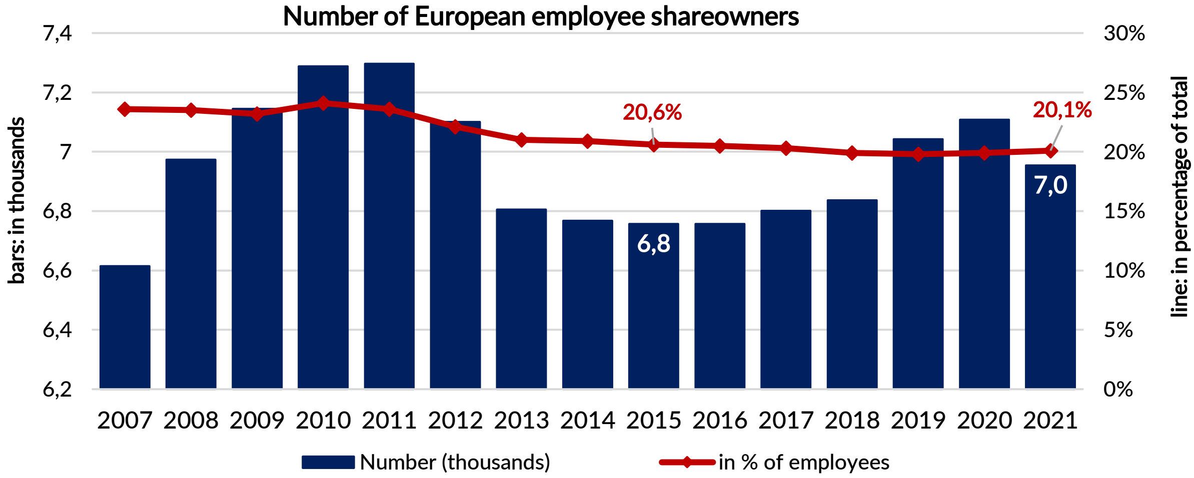
% of total	2015	2021
Currency & deposits	**31%**	▲**31%**
Debt securities	**3%**	▼**1%**
Loans	**0.33%**	▼**0.31%**
Equity & IFUs	**30%**	▲**33%**
of which: equity	21%	▲ 23%
of which: listed shares	4%	▲ 5%
of which: investment funds	9%	▲ 10%
Insurances & pensions	**32%**	▼**32%**
Derivatives	**0.02%**	▼**0.01%**
Other	**3%**	▼**3%**

KPI 4 – The EU equity investment culture

Status: Negative evolution



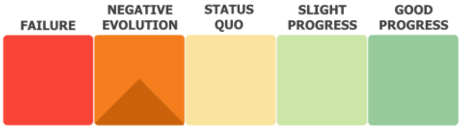
The CMU rightly aimed to revive an equity culture in the EU in order to promote long-term and sustainable growth, which can be done through employee share ownership[7]. However, reviving the European equity investing culture has not been a priority for policy action and regulatory reform. The quantitative results speak for themselves: EU households collectively remain a modest, small shareholder of the European economy as most listed equity remains on the balance sheets of financial corporations. Moreover, the number of employee shareowners in European companies continued to decrease from its historical high in 2015. Consequently, we mark this KPI as deteriorating compared to the situation in 2015.



[7] Guillaume Prache, 'Employee Share Ownership: The Single Most Powerful Action to Reach the CMU Goals' in Eurofi Views Magazine, *The Eurofi High Level Seminar 2019* (Bucharest, 3 April 2019), p. 176, http://www.eurofi.net/?document=bucharest-2019-views-eurofi-magazine.

KPI 5 – Capital market returns for retail investors

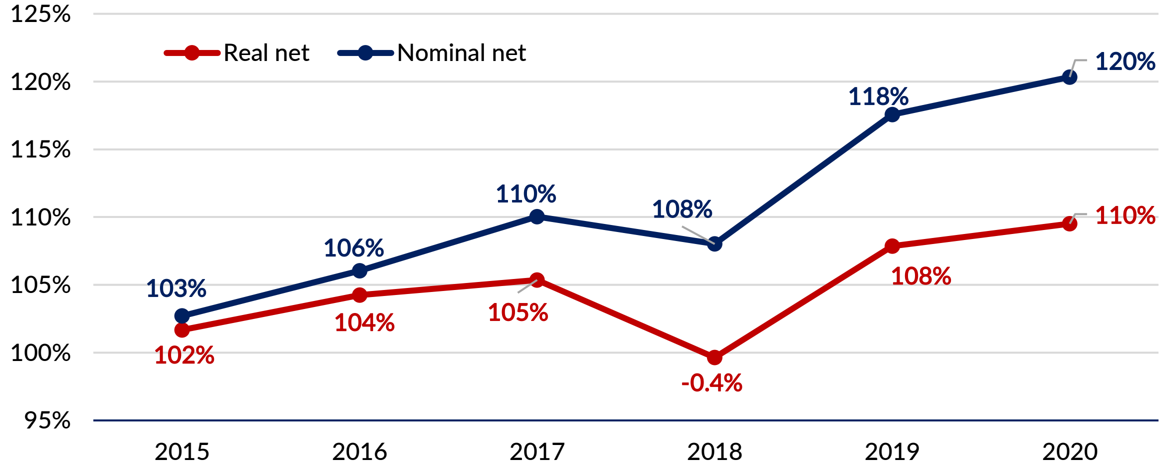
Status: Negative evolution



In this edition, we analyse all returns on capital market investments obtained by EU households, which we complemented with some key data on banking products as well. Investment funds generally perform better than insurance-based products, albeit these make up for a share three times smaller in the financial balance sheets of EU households. While the total expense ratios of UCITS show a decreasing trend, the real net returns of equity and bond funds are still suboptimal considering the bull markets ending in 2021. Insurance-based investment products delivered even smaller returns – probably due to higher costs and more defensive asset allocations (debt securities as the main asset).

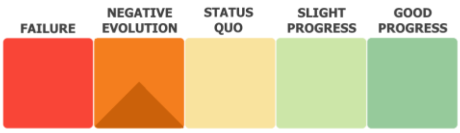
Pension products (sourced from the BETTER FINANCE report[8]) mostly underperform the EU capital markets benchmark: a 50-50% all European equity and bond index. Considering all the above, we mark this KPI as deteriorating compared to the situation in 2015.

EU27 "retail' investior's proxy portfolio performance



KPI 6 – Coherence of sectoral legislation

Status: Negative evolution

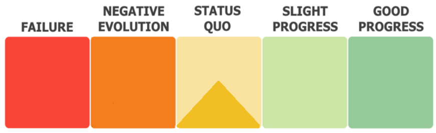


The CMU rightly aimed to revive an equity culture in the EU in order to promote long-term and sustainable growth, which can be done[9] through employee share ownership. However, reviving the European equity investing culture has not been a priority for policy action and regulatory reform, and the quantitative results speak for themselves: EU households remain a modest, small shareholder of the European economy as most listed equity remains on the balance sheets of financial corporations. Moreover, the number of employee share owners in European companies continued to decrease from its historical high in 2015. As such, we mark this KPI as deteriorating compared to the situation in 2015. However, we note a rise of the number of individual shareholders since the first COVED epidemy (2020).

[8] https://betterfinance.eu/publication/the-real-return-long-term-pension-savings-report-2022-edition/

[9] Guillaume Prache, 'Employee Share Ownership: The Single Most Powerful Action to Reach the CMU Goals' in Eurofi Views Magazine, *The Eurofi High Level Seminar 2019* (Bucharest, 3 April 2019), p. 176, http://www.eurofi.net/?document=bucharest-2019-views-eurofi-magazine.

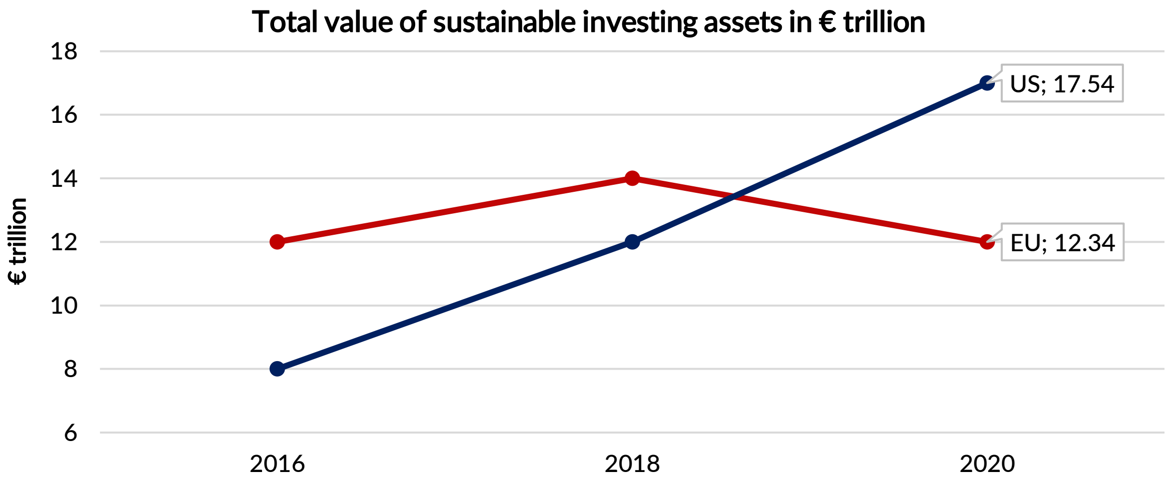
KPI 7 – Sustainable finance outlook



Status: Stagnation

The number of sustainable assets has stagnated since 2016 in the EU, with markets disproportionally centred on a few EU Member States, whilst Eastern European markets are lagging behind their central and Western counterparts. Sustainable investing in Europe appears underdeveloped when compared to the US and in general sustainable funds only account for less than 5% of the global fund markets.

Similarly, the increase of green and sustainable bonds in Europe is concentrated around a few EU Member States and still represent less than 10% of the local capital managed. The lack of an official register of ESG bonds as well as a sole focus on Eurozone share of global green bonds makes it challenging to assess more precisely. The changes in sustainable assets may also be a result of the regulatory landscapes and investor interest, thus we evaluate the KPI as stagnated when compared to the status in 2018 for example.



Note: Each chart/graph in this executive summary is reiterated in the Analysis and Statistical Annex, where sources can be found.

Part 1. Introduction: The Road to CMU

Since 2015, the EU is struggling to build a Capital Markets Union (CMU), with limited success so far. In 2020, a high-level group of experts noted that "*there is a widespread perception in the EU that financial markets are not serving citizens well enough and that it is mainly wealthy individuals that benefit from capital markets*".[10]

In our view, this finding is unfortunately very accurate, as investment and financial services continue to rank among the lowest in terms of consumer trust globally,[11] as well as in the EU.[12] In response, several trends from the "retail" investor activism sphere have emerged, such as *decentralised finance*, *social trading*, *shareholder engagement*, and *self-investing*.[13]

The policy initiatives proposed and pursued at EU level to build the CMU are explained in the following sections.

1. The 2015 CMU Action Plan

The European Commission's 2015 "Action Plan on Building a Capital Markets Union" (2015 CMU Action Plan) consisted of 33 objectives which the Capital Markets Union was designed to achieve[14] through a €315 billion investment plan and a number of legislative projects. The 2015 CMU Action Plan took over the wording and ideas outlined in the *5 Presidents Report*[15] to become the second pillar of the Financial Union, alongside the Banking Union.

The CMU would unlock capital financing from domestic and foreign investors to match holders of capital with new projects and create more integrated financial systems within the EU. Focusing on retail investors, the Commission envisaged three main targets:[16]

i. to restore retail investor confidence in the industry through increased transparency and disclosure of information, coupled with better investment advice;
ii. to achieve greater choice and "*access to a range of suitable and cost-effective investment products*" by increasing cross-border distribution of financial products; and
iii. to enhance retirement savings, in particular by creating "*a successful European market for simple, efficient and competitive personal pensions*".

In 2015, BETTER FINANCE drew attention to the fact that, in spite of retail investors being "*the main source of long-term financing for the real economy*", the plan was based on a Green Paper[17] that did not

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[10] Report of the High-Level Forum on the Future of the Capital Markets Union (June 2020) European Commission, p. 18, available at: https://ec.europa.eu/info/sites/default/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf, hereinafter HLF CMU Report.

[11] For instance, according to the Edelman Trust Barometer, financial services are the second lowest business sector in terms of trust from the average citizen and, in fact, the lowest among industry sectors (although the situation has been improving since 2016, with a +3 points increase since 2021 – See Edelman, *Global Report of the Edelman Trust Barometer 2022* (accessed 13 May 2022), pp. 52-53, available at: https://www.edelman.com/sites/g/files/aatuss191/files/2022-01/2022%20Edelman%20Trust%20Barometer%20FINAL_Jan25.pdf.

[12] Consumer Markets Scoreboard 2018 – Making markets work for consumers, European Commission, 2018, https://ec.europa.eu/info/publications/consumer-marketsscoreboard_en.

[13] See BETTER FINANCE, *The New Retail Investing Environment: Expectations and Challenges Ahead* (23 May 2022), available at https://betterfinance.eu/publication/the-new-investing-environment-for-retail-investors-expectations-and-challenges-ahead/.

[14] European Commission, 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions: Action Plan on Building a Capital Markets Union' Brussels, 30.9.2015, COM (2015) 468 final, p. 3.

[15] Jean-Claude Junker, Donald Tusk, Jeroen Dijsselbloem, Mario Draghi, Martin Schulz, 'Completing Europe's Economic and Monetary Union' https://ec.europa.eu/commission/sites/beta-political/files/5-presidents-report_en.pdf.

[16] European Commission, 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions on the Mid-Term Review of the Capital Markets Union Action Plan' Brussels 8.6.2017, COM (2017) 292 final, 17-18.

[17] European Commission, 'Green Paper: Building A Capital Markets Union' Brussels, 18.2.2015, COM (2015) 63, final.

sufficiently focus on the direct participation of retail investors in capital markets, on the protection of their rights or on enhanced supervision and enforcement.[18]

2. The revised CMU Action Plan

In 2017, the Commission published a mid-term review[19] of its 2015 CMU Action Plan highlighting what was still needed to achieve the CMU. Regarding retail investors, the EC:

(i) announced it would "*quickly move forward with three legislative proposals*", among which the Regulation on the Pan-European Personal Pensions product (PEPP); and
(ii) established "*new priority initiatives to strengthen the CMU action plan*", including:
  a. to enhance financial supervision;
  b. to increase investment firms' competitiveness and broaden the offer for investors;
  c. to eliminate barriers to capital markets for start-ups and SMEs and incentivize IPOs;
  d. to tap into the disruptive (and creative) force of FinTech;
  e. to "*support the development of local capital markets*"; and
  f. to facilitate cross-border investments, enhance efficient allocation across the EU.

In response, BETTER FINANCE stressed that more should be done towards "*restoring confidence in capital markets and investment products*".[20]

The European Commission delivered on a significant number of legislative proposals by 2019, but a great majority of them were still blocked in the political process. Of all the proposals the Commission put forward (36), only 13 were adopted by the end of 2018.[21] The Romanian Presidency of the Council of the EU (January to June 2019) announced that one of its priorities was to push through the stalemate and deliver a part, which it did.

3. The NEXT CMU Report

In 2019, an ambitious effort by the Ministries of Finance of three Member States (NL, FR, DE) established a High-Level Expert Group (HLEG) whose purpose was to gather evidence and input from stakeholders on what was still needed to build the CMU.

BETTER FINANCE was heard by the HLEG and contributed to its work.[22] As such, we were happy to observe that many of the research findings and policy recommendations put forward were taken on board in the report.[23]

Particularly, the report proposed as "*absolute priorities*" the need to "G*enerate more Long-Term Savings and Investment opportunities*", to be implemented through:

- the consistent application of "Investor protection, fair treatment and cost transparency rules";
- encouraging "collective 'workplace savings' and 'employee shareholder plans'"; or by

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[18] See BETTER FINANCE, 'An EU Capital Market Union for Growth, Jobs and Citizens' (2015) Briefing Paper http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/CMU_Briefing_Paper_-_For_Print.pdf
[19] European Commission, (n 15).
[20] BETTER FINANCE Press Release 'BETTER FINANCE Welcomes the Capital Markets Union Mid-Term Review and Urges the Commission to Make Progress on Fostering Retail Investment in Capital Markets' (8 June 2017) http://betterfinance.eu/fileadmin/user_upload/documents/Press_Releases/en/Other_investors/PR_-_CMU_MID-TERM_REVIEW_REPORT_-_080617.pdf
[21] In fact, during 2018 BETTER FINANCE's conference Olivier Guersent (Director-General for a Capital Markets Union at the European Commission) highlighted that *"the EC did its homework. Yet, some will say there is not much more CMU than a few years ago, and it is true. Only 3 of the 13 legislative proposals that were part of these initiatives were adopted, because they are locked in the legislative procedure. There is a true lack of ambition in the Council and since the crisis is over, complacency has settled in."* https://betterfinance.eu/wp-content/uploads/PR_-_EU_Capital_Markets_2019-2024_-_071218.pdf
[22] See the website https://www.nextcmu.eu/send-us-a-contribution/.
[23] See BETTER FINANCE Press Release, 'Capital Markets Union Given New Breath of Life in New HLEG Report Putting Sustainable Finance at Its Core' (17/10/2019) https://betterfinance.eu/wp-content/uploads/PR-Capital-Markets-Union-given-a-New-Breath-of-Life-17102019.pdf.

- setting up "*a minimum harmonized tax incentive for general savings in simple and transparent long-term financial instruments like single shares and ETFs*";
- launching "an adequacy test for multi-pillar retirement savings"; and
- by taking "*an active role in implementing the new EU Regulation on sustainable investment disclosures and commit to public reporting on clear objectives for their investment strategies*".

In addition, with regards to the development of capital markets and an EU equity culture, the report suggested as an absolute priority to "*massively develop equity markets*", which would be achieved by concrete actions such as:

- distinguishing between investors ("Introduce the definition of a new category of experienced High Net Worth ("HNW") investors with tailor made investor protection rules") and
- incentivizing more institutional investors to invest for the long-term and hold more equity.

For many years BETTER FINANCE had been advocating for such measures to increase the direct participation of retail investors in capital markets, e.g., by allowing experienced investors to act as semi-professionals and opt out of the highly protective mechanisms introduced for inexperienced investors, to improve access to low-cost, simple products and to enable more SMEs to acquire potential funding through regulated markets.

4. The HLF CMU Report

In 2020, the European Commission assembled a High-Level Forum[24] of experts from all corners of capital markets[25] to work and propose a set of recommendations for EU authorities to complete the Capital Markets Union. The output (HLF CMU Report[26]) noted:

> "*The importance of effective capital markets that work for all - for the future financial well-being of European citizens and for the growth and development of EU companies and economies – has been recognised for some time, but is more urgent than ever*".[27]

The HLF CMU Report also underlined the urgency of establishing a CMU and acknowledged the role of individual, non-professional ("retail") investors as "*one of the primary funders of the capital markets and of the economy*".[28] The recommendations agreed on by the group of experts focused on key areas for the development of the CMU, including *fostering retail investments in capital markets* divided into four sets of actions (below quoted from the report):

- *recommendation in the area of pensions*, in concrete to:
  - establish national pension dashboards;
  - set up individual pension tracking systems; and
  - incentivise auto-enrolment into occupational pension schemes.
- *recommendation on financial literacy/education and investment culture*, concretely to:
  - recognise financial knowledge and skills as a priority of lifelong learning;
  - develop an EU framework on financial competence;
  - give more prominence to financial literacy projects under Erasmus+ or other EU funding programmes;
  - further promote measures that support the education of consumers in relation to responsible borrowing and debt management; and
  - strengthen collective redress tools for "retail" investors; and
  - incentivise Employee Share Ownership programmes.

[24]
[25] Including BETTER FINANCE's Managing Director, Mr. Guillaume Prache, participating in the retail investments workstream.
[26] Final Report of the High-Level Forum on the Future of the Capital Markets (10 May 2020) European Commission, available at: https://ec.europa.eu/info/sites/default/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf.
[27] HLF CMU Report (n x), p. 4.
[28] HLF CMU Report (n X), p. 2.

- *recommendation in the area of distribution, advice, disclosure*, concretely to:
    - work in the area of inducements, for instance to undertake a study "*on the role of inducements for the adequacy of advice, including how the payment/receipt of inducements impacts the fairness and adequacy of advice and sales processes more generally*";[29]
    - set up an EU quality label for financial advisors;
    - regulate a non-professional qualified investor/client category;
    - undertake a study on consumer disclosures in financial services; and
    - establish investment product databases and comparison tools.
- *recommendation on open finance*, concretely to:
    - "*introduce a harmonised and balanced open finance regulatory framework* (…) *with a goal to foster better competition between providers of financial services and equip retail investors with better tools to manage their finances and investments*".[30]

Of direct concern for "retail" investors are a few other sets of recommendations, namely:

- *recommendation on shareholder identification, exercise of voting rights and corporate actions*, concretely to:
    - lay down a definition for "shareholder";
    - improve the interaction between shareholders, intermediaries, and issuers on the exercise of voting rights and corporate action processing;
    - facilitate the use of new digital technologies to enable wider investor engagement and make corporate action and general meetings processes more efficient.
- *recommendation on withholding tax*, concretely to:
    - "*set out in EU law common definitions, common processes, and a single form, relating to withholding tax relief at source procedures and their streamlining*".[31]
- *recommendation on EU Single Access Point*, concretely to:
    - set up a database with company data that can be accessed by any user.
- *recommendation on crypto/digital assets and tokenisation*, concerning:
    - clarify which crypto-assets fall under EU financial regulation and classify the different types of crypto-assets;
    - propose a regulation for markets in crypto-assets and for DLT-based market structures;
    - regulated crypto-assets issued in non-EU domiciles and distributed in the EU.

Few of these recommendations have so far materialised into EU policy action or have been taken up by the EU co-legislators.

5. The 2020 CMU Action Plan

The President of the EU Commission renewed the political promise to deliver on the CMU, triggering a revaluation of the initial Action Plan.[32] In need to support recovery from the economic effects of the global health pandemic, to deliver on the Green Deal, to prepare the EU economy for the digital age and to address social issues, the EC revamped its CMU Action Plan in September 2020.

> "*European citizens and businesses are not able to fully benefit from the deep, competitive, efficient, and reliable sources of funding and investment that capital markets can offer*".[33]

The new Action Plan would "*allow the EU's economy to grow in a sustainable way and be more competitive*", focusing on three key objectives which would be reached by implementing 16 actions. Only three of these concerned "retail" investors directly.

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[29] HLF CMU Report (n X), p. 98.
[30] HLF CMU Report (n X), p. 109.
[31] HLF CMU Report (n X), p. 112.
[32] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, *A Capital Markets Union for People and Businesses - New Action Plan* (Brussels, 24 September 2020), COM(2020) 590 final, p. 1, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2020:590:FIN.
[33] Ibid.

CMU objectives	Implementing Actions
Support a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies	Action 1. Making companies more visible to cross-border investors Action 2. Supporting access to public markets Action 3. Supporting vehicles for long-term investment Action 4. Encouraging more long-term and equity financing from institutional investors Action 5. Directing SMEs to alternative providers of funding Action 6. Helping banks to lend more to the real economy
Make the EU an even safer place for individuals to save and invest long-term	Action 7. Empowering citizens through financial literacy Action 8. Building retail investors' trust in capital markets Action 9. Supporting people in their retirement
Integrate national capital markets into a genuine single market	Action 10. Alleviating the tax associated burden in cross-border investment Action 11: Making the outcome of cross-border investment more predictable as regards insolvency proceedings Action 12. Facilitating shareholder engagement Action 13. Developing cross-border settlement services Action 14. Consolidated tape Action 15. Investment protection and facilitation Action 16. Supervision

6. EC Toolkit of Indicators on the CMU

In 2019, stakeholders published a plethora of reports assessing progress towards the CMU. In response, the EC published its own set of indicators to track the development of the CMU.[34]

BETTER FINANCE welcomed the EC's initiative as a key step for building the CMU. While some of the EC's eight indicators are spot-on in principle, their content still requires much improvement. Unfortunately, these indicators obliterate three actions from the latest CMU Action Plan (2020). We encourage the EC to consider this analysis and urge the EU co-legislators to empower (with resources) the EC, ESMA, and EIOPA to carry on their tasks.

To begin with, the EC should have referenced a starting point for each indicator and set milestones for periodical reviews. For instance, on the structure of household financial savings, what would be the optimal allocation of capital (EU27 households, aggregated) between direct, indirect investments and bank savings?

Second, the indicators should be regarded holistically and reflect fluctuations in other indicators as well. For instance, looking at the increase in value of the listed equity holdings does not necessarily reflect that households invest more in listed equities. BETTER FINANCE provides below some targeted comments on the indicators referencing retail investments in the CMU Action Plan of 2020.

[34] Commission Staff Working Document, *Monitoring Progress Towards A Capital Markets Union: A Toolkit of Indicators* (9 June 2021) EU Commission SWD (2021) 544 final 2, available at: https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/210609-capital-markets-union-indicators_en.pdf.

Structure of financial savings and number of households investing in capital markets

#	Indicator	Description	Data source
20	Direct investment by households	Sum of volumes of bonds and listed shares held by households relative to the sum of volumes of both and cash holdings and deposits	Eurostat, annual sector accounts
21	Intermediated retail investments by households	Sum of investment funds and claims against insurers and pension funds of households relative to the sum of these items and cash holdings and deposits	Eurostat, annual sector accounts
22	Direct and intermediated retail investment by households	Volume of direct and intermediated investment by households relative to the sum of both and cash holdings and deposits	Eurostat, annual sector accounts
23	Dispersion of financial securities holding in the population (directive investment by households)	Share of households that directly hold bond or listed shares in the total number of households	Household Finance and Consumption Survey (ECB)
24	Dispersion of claims against non-bank financial intermediaries in the population (intermediated investment by households)	Share of households that hold claims against investment funds, life insurance or pension funds in total number of households	Household Finance and Consumption Survey (ECB)

Source: EC Toolkit of Indicators[35]

In the Eurozone, households mainly allocate savings to non-financial assets (real estate, immovables), with a decreasing proportion for financial assets (see Figure 20 in statistical annex). Asset diversification is equally important to ensure that households are not concentrated in one or two asset categories, as it currently happens with packaged products (IBIPs) and banking products (67.6% of the total for Eurozone households, 2022 data).

BETTER FINANCE further disagrees with how the EC proposed to calculate the direct and intermediated investments by households, i.e., ratio of listed shares plus bonds to cash plus deposits. First, cash and deposits should not be the benchmark against which the CMU progress ought to be measured; instead, the value of direct and packaged investments should be calculated relative to the total financial balance sheets of EU households. Second, the ratio described by the EC will give misleading results, as showcased in the example in the Statistical Annex. Also, a necessary indicator would be the actual number of households investing in EU capital markets. In a recent report, BETTER FINANCE analysed 13 EU jurisdictions and found more than 4 million new (formerly inactive) "retail" savers started investing during the COVID-19 global health pandemic.[36]

Costs of retail investments

#	Indicator	Description	Data source
25	Costs of retail investment	Total expense ratio of equity UCITS funds	ESMA based on Refinitiv, LSEG, Lipper

Source: EC Toolkit of Indicators

Equity UCITS funds form a small share of EU household investments (less than 5%); other packaged products, such as life insurance contracts, are much more expensive and pervasive in certain jurisdictions. At least, if commercial databases would be used, the EC should distinguish between retail and institutional UCITS (like ESMA does) and should add AIFs as well in order to create an adequate proxy for such investments.

[35] European Commission, *Commission Staff Working Document: Monitoring Progress Towards a Capital Markets Union – A Toolkit of Indicators*, (09.06.2021) SWD(2021) 544 final, p. 36, available at: https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/210609-capital-markets-union-indicators_en.pdf, hereinafter "COM CMU Toolkit".
[36] See BETTER FINANCE, *New Retail Investing Environment: Expectations and Challenges Ahead* (May 2022) BETTER FINANCE, p. 19, available at: https://betterfinance.eu/wp-content/uploads/BF-Report-New-Retail-Investing-Environment-for-Retail-Investors-01062022.pdf.

Sustainable finance

#	Indicator	Description	Data source
26	Green bonds	Issuance of green bonds by the private and public sector relative to total bond issuance	Bloomberg, ECB (for total bonds)

Source: EC Toolkit of Indicators

Green bond issuance is not an appropriate proxy neither for sustainable finance, nor for ESG-factored investments. Sustainable finance is about quality, not necessarily quantity: the focus is on reorienting capital to sustainable investments and on combatting greenwashing, impact investing, disclosures etc. ESMA gave a good example in its latest Annual Statistical Report on Performance and Cost of Retail Investment products on the ESG market:[37] this should be taken as a starting point.

Digital finance

#	Indicator	Description	Data source
27	Crowdfunding	Credit and equity allocated through crowdfunding relative to GDP	Cambridge Centre for Alternative Finance

Source: EC Toolkit of Indicators

BETTER FINANCE agrees with the proposed indicator but advises the EC to also consider the following two: (i) use of automated advice and investment platforms (by the absolute change in the number of clients and assets under management[38]); and (ii) availability and use of shareholder engagement applications or platform by minority, individual shareowners (through surveys with custodians and brokers).

[37] European Securities and Markets Authority, *Annual Statistical Report on Performance and Cost of EU Retail Investment Products* (5 April 2022) ESMA 50-165-1677, pp. 21-25, available at: https://www.ethe.org.gr/files/pdf/2022_esma_50-165-1677_asr_performance_and_costs_of_eu_retail_investment_products_1649161753.pdf.
[38] See BETTER FINANCE's Robo-Advice Report (2020 edition), p. 16-21, available at: https://ec.europa.eu/info/sites/default/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf.

Part 2. Key Performance Indicators

"The economic purposes of securities markets are to meet the needs of companies and savers"[39]

The 2020 CMU Action Plan promised several key benefits for EU citizens and enterprises, from which we will only reiterate: "*improved access to finance, more efficient capital allocation, diversification of funding sources, improved investment opportunities, improved risk-sharing*".[40]

***Key Performance Indicator* - a measure to evaluate how successful an action was in reaching its objective**

BETTER FINANCE chose a simple method to assess the effectiveness of CMU policy initiatives: we compare statistical data or qualitative findings now (or most recently available) with the status quo at the time of launch, 2015. We nuance progress or regress on a 5-graded scale: failure, negative evolution; status quo* (stagnation); *slight progress; good progress.

This analysis starts from the 5 Key Performance Indicators (KPIs) evaluated by BETTER FINANCE in its CMU Assessment Report 2019. To these, the present reports adds two more KPIs to reflect market and policy developments. Each KPI answers a key question:

Key Performance Indicator (KPI)	*What does it measure?*
KPI 1. Capital market vs bank funding	*How developed are EU capital markets?*
KPI 2. SME participation in capital markets	*Does the real economy harness the advantages provided by capital markets?*
KPI 3. Retail investments in capital markets	*Are EU citizens connected to capital markets?*
KPI 4. The EU equity investment culture	*How inclined are EU investors towards long-term financing?*
KPI 5. Costs and returns for retail investors	*Do EU citizens get value for money from capital markets?*
KPI 6. Coherence of rules in sectoral legislation	*Do EU citizens benefit of the same standard of protection across investment product markets?*
KPI 7. Sustainable Finance Outlook	*Can EU capital markets reach sustainability goals?*

[39] John Kay, *Other People's Money: Masters of The Universe or Servants of the People?* (2021) Profile Books Ltd, p. 227.
[40] European Commission, 'Staff Working Document: Economic Analysis Accompanying the document *Communication from the Commission to the Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Action Plan on Building a Capital Markets Union*', Brussels 30.9.2015, COM (2015) 183 final, 14.

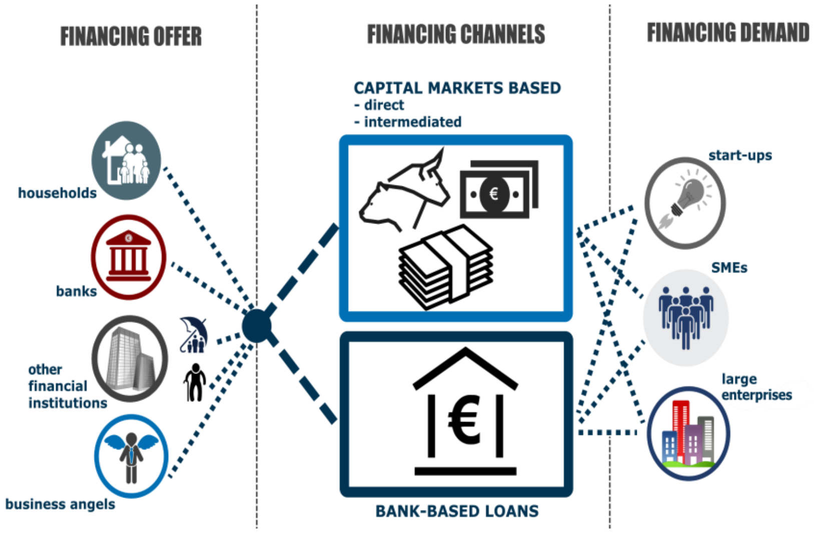
2.1 KPI 1 – Capital market funding vs bank funding

Summary

There has been little progress on diversifying funding sources for the EU economy and reconnecting households and issuers of equities and bonds. As such, we still very much rely on the banking sector, further fuelling the "too big to fail" fallacy and causing detriment to retail savers.

Correlated actions/objectives of the ↗ CMU Action Plan (2020)	
Objective	get "*investment and savings flowing across all Member States, benefitting citizens, investors and companies*"
Objective	deliver on EU key economic policy objectives: "*post-COVID-19 recovery, an inclusive and resilient economy that works for all, the transition towards a digital and sustainable economy, and strategically-open autonomy in an increasingly complex global economic context* (…) *only well-functioning, deep and integrated capital markets can provide the scale of support needed to recover from the crisis and power the transition*".
Objective	create a more stable funding structure for EU businesses: "*essential for mobilising private investment in companies and complementing public support* (… reduce the) *dependence on a single source or single provider of financing and reduces the funding gap. Companies of all sizes – and in particular SMEs – need solid market-based funding sources*".
Action 1	Making companies more visible to cross-border investors
Action 2	Supporting access to public markets
Action 3	Supporting vehicles for long-term investments
Action 4	Encouraging more long-term and equity financing from institutional investors

The main funding channels in financial markets originate with households (retail savers), and venture capital investors (business angels). Financial corporations, for instance investment funds or banks, are only intermediaries in this process.



This KPI seeks to understand if the CMU improved the funding channels for the EU economy, particularly by reconnecting households and issuers.

Source: BETTER FINANCE, 2019

The European economy is over-reliant on the banking sector,[41] which is slowing down growth, recovery, exposing it to systemic risk and making it very sensitive to central bank monetary policies.[42] One of the priorities of the CMU Action Plan in 2015 was to increase capital markets-based funding for

[41] See Vincenzo Bavoso, 'Capital Markets, Debt Finance and the EU Capital Markets Union: A Law and Finance Critique' ECMI Working Paper no. 5 of November 2017, p. 3 and 5; however, New Financial's report on the depth of the capital markets in the EU points out some encouraging signs that companies in the EU have begun to reduce their reliance on bank lending over the last 10 years. New Financial "A decade of change in European Capital Markets" (n 25) page 10.
[42] Economic Analysis 2015 CMU Action Plan (n 24) page 18.

businesses,[43] which we commented will not be possible without a high participation rate of individual investors.[44] The revamped CMU Action Plan of 2020 highlighted that bank funding to businesses "*will not be sufficient given the magnitude and expected duration of financing needs. Market financing will be the lifeblood that sustains the recovery and future growth over the long-term*".[45]

To evaluate progress, BETTER FINANCE analysed thirteen indicators showing whether and how dependent non-financial corporations are on bank funding channels. The results of our analysis are provided below, and the supporting tables, charts, and graphs are included in the statistical annex (SA).

"*The financial crisis showed us that the EU would greatly benefit from rebalancing its economic structures towards a more market-based finance*".[46]

Indicator	Comment	SA reference
Equity vs bank funding volumes	All three indicators on the depth of funding channels in the EU saw a slight increase compared to 2015: relative to the EU GDP, bank funding increased from 186% to 193%, the equity market capitalisation value from 73% to 78%, and debt issued by non-financial corporations from 68% to 72%. As the proportions have not changed significantly, this landscape (debt-equity-bank funding) has stagnated between 2015-2021.	Figure 1
Depth of securities markets vs banking sector	The size of banking, debt, and equity markets in the EU is also key for the development of the CMU. As it is easy to confuse with the indicator above (*equity vs bank funding volumes*), we recommend reading the additional explanations in the Statistical Annex. The value of assets owned by the entire domestic (EU) economy shows the *depth* of a certain market: the banking sector relative to the GDP has dominated both the equity and debt securities sectors.	Figure 2
Equity market capitalisation – EU/US ratio	Further, we compare the value of the equity market capitalisation of listed companies in the EU and US as a ratio between the two. With many more listed companies and much more liquidity, US listed shares generally aggregated twice more capital from investors than EU ones, with the sole exception in 2007 (just before the crisis), when the ratio (EU/US market capitalisation) reached 76%. After the global financial crisis, the ratio started to decrease and reached in 2021 a 19-year low (26%), which is almost half of the level recorded in 2015. As such, this indicator shows a strong deterioration 6 years after the launch of the CMU Action Plan.	Figure 3
Characteristics of EU, US, WW stock markets	At the beginning of the reference period (2015-2021), a sixth of exchange-traded companies were listed on EU stock markets, compared to a tenth in the US, but their market capitalisation and the number of trades executed was three times lower. In 2021, the picture further deteriorated, with the market capitalisation and number of trades decreasing significantly compared to the US. However, the total capital raised by listed stocks improved and exceeded US levels. In terms of IPOs, data unavailability prevents comparisons with the US, but we note that in 2021 the US IPO market was almost four times larger than the EU one.	Tables 4.1-4

[43] European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions: Action Plan on Building a Capital Markets Union, COM/2015/0468 final.
[44] BETTER FINANCE, *CMU Briefing Paper* (2015), available at: https://betterfinance.eu/wp-content/uploads/publications/CMU_Briefing_Paper_-_For_Print.pdf.
[45] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions: A Capital Markets Union for People and Businesses – New Action Plan (September 2020), COM/2020/590 final.
[46] Apostolos Thomadakis, 'How Close Are We to a Capital Markets Union?' 44 (17 March 2017) European Capital Markets Institute Commentary, 2.

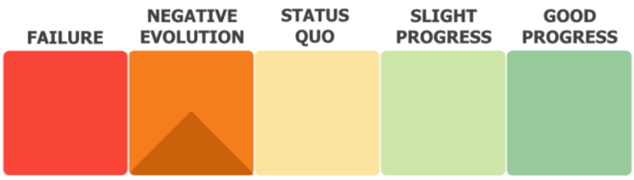
Eurozone bank assets & liabilities	Some stakeholders argue that banks are sufficiently resilient to support household and corporate financing in the EU and/or Eurozone; by looking at the assets (what banks fund the economy) versus the liabilities (what deposits banks attract), we will see that the funding capacity is not that strong. In the Eurozone, banks had €11.5 trillion in loans to households and non-financial corporations, yet just a small fraction (€230 billion) worth of ownership rights in non-financial corporations.	Figures 5.1-2
FC credit to private sector	This indicator compares how much financial corporations lend to the domestic economy (relative to the GDP) between the EU and US. In the EU, the value of credit held by financial corporations has generally been half of the level observed in the US. At the same time, in the EU we observed a constant decreasing trend since 2009, reaching 84% (from 105%) by the end of 2019; in 2020, economic pressures triggered by the pandemic made the indicator slightly increase to 91%. In the US market, the value of debt instruments issued by the domestic sector and bought by financial corporations spiked during the first year of the pandemic to 216%, also marking a 20-year record.	Figure 6
NFC debt: EU/US ratio	It is also important to understand how much capital markets-based debt non-financial corporations in the EU issue for financing purposes compared to the US. To contrast the figures for the EU, we calculate the ratio to the levels in the US.	Figure 7
Treasury operations of Eurozone NFCs	The resilience and financing capacity of non-financial corporations (NFCs) on capital markets is showcased by their treasury operations (corporate financing instruments): the debt/income ratio, although it decreased by the end of 2019, is still at a very high level (321%); the return on equity levels is also very low, decreasing from 19.91% in 2015 to 15.28% in 2020.	Figure 8
SME financing needs	The percentage of small- and medium-sized enterprises (SMEs) indicating a need for external financing as capital participation (equity issuance) is the highest followed by the other two key channels, i.e., bank loans and debt instruments. While in the first half of 2020 SMEs required access to much more bank loans to cushion short-term economic needs due to public health lockdowns, it decreased by the end of 2021 to just 4%, whereas equity financing stood at 8%. Overall, the three indicators stagnated since the launch of the CMU Action Plan in 2015, thus we can conclude that the financing needs of SMEs have been fairly constant.	Figure 9
SME financing availability	In terms of external financing availability, the ECB SAFE survey highlights that, due to economic pressures over the two pandemic years, access to financing for SMEs has generally deteriorated, potentially also due to firm-specific factors. With the exception of access to equity financing, which decreased from 6% in 2015 to 3% at the end of 2021, the two other indicators have stagnated, meaning that the external financing availability for SMEs has not improved over the past 6 years.	Figure 10
Types of financing used by NFCs	The types of financing actually used by SMEs are predominantly bank loans and internal funds, and only a very small share of SMEs surveyed use capital markets-based external funding, such as equity or debt instrument issuance. According to data collected by the ECB SAFE survey, the financing channels used by SMEs have not changed since 2015.	Figure 11
SME expectations: equity funding	In terms of equity financing availability, we also distinguish between what SMEs perceive and expect to be available and what is actually	Figure 12

	available. The equity financing expectations of SMEs are higher than what is available to them (with the exception of the second half of 2020).	
SME expectations: debt financing	In terms of debt financing expectations, the availability and access to this kind of instrument is much easier than what SMEs expect. Excluding seasonal fluctuations (usually for the second half of the year) the percentage of respondents and their answers have not varied significantly over the reporting period (2015 – 2021).	Figure 13

Jump to statistical Annex – KPI1.

Of the thirteen indicators used by BETTER FINANCE to assess the evolution of this key performance indicator the majority have either stagnated since 2015 or observed a negative evolution. Compared to the first edition of this report (2019), when BETTER FINANCE assessed progress on KPI1 as neutral (stagnated), we now observe a deterioration.

In other words, the policy initiatives and legislative reforms undertaken since the launch of the CMU project have not improved the depth of capital markets in the EU, nor the funding availability (access, types of channels used, etc) for the EU economy: albeit the deterioration has not been significant, we can say EU capital markets are still at square one. To achieve progress in this sense and reduce the reliance of the EU economy on the banking sector, as stated in the three CMU Action Plans so far, EU public authorities, most notably the European Commission, must re-think from scratch the policy and regulatory tools that can be used and must set clear, straightforward indicators that will also serve as guidance on what can be improved.



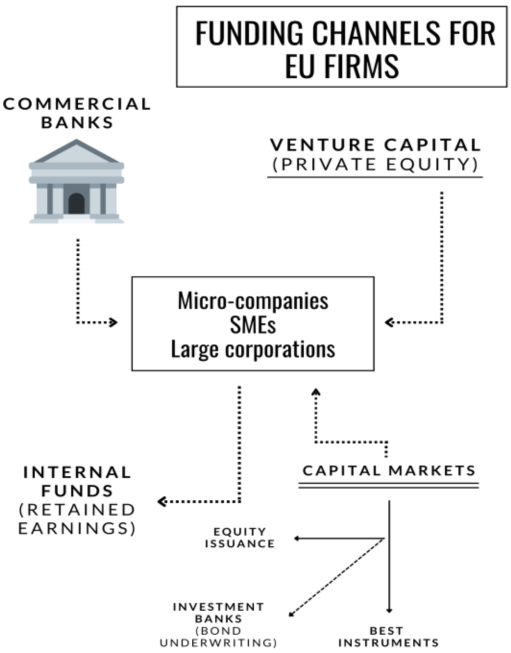
KPI 1: Capital Markets Funding vs Bank Funding – negative evolution.

2.2 KPI 2 – SME participation in capital markets

Summary

Complementing KPI 1 on the sources of funding for the EU economy, the level of SME participation in capital markets also shows a deterioration: publicly listed SME markets have decreased compared to the levels of 2015, as well as the number and volume of initial public offerings (IPOs). Private equity markets have stagnated, indicating an overall negative evolution of this KPI for building the Capital Markets Union.

Correlated actions/objectives of the ↗ CMU Action Plan (2020)	
Objective	*“Access to some forms of funding, such as public equity, remains limited. The new measures put forward by this action plan aim to further facilitate the use of market funding and to help companies make use of all available funding sources”*
Action 5	Directing SMEs to alternative providers of funding
Action 2	Supporting access to public markets
Action 1	Making companies more visible to cross-border investors



In 2019,[47] there were a total of 23.2 firms operating in the European Union (EU28 at the time), out of which 99.8% were SMEs, further divided into micro-enterprises (less than 9 persons employed, 93% of the total), small enterprises (10-49 employees, 5.9% of total) and medium enterprises (50-249 employees, 0.9% of total).[48]

However, out of the total added value at factor cost, these 99.8% firms domiciled in the EU account for only 52%, the rest being generated by large corporations, who are in vast majority publicly quoted.

In order to grow, provide more added value and create more jobs, EU SMEs need to have access to diversified channels of funding.

Source: BETTER FINANCE ©, 2022

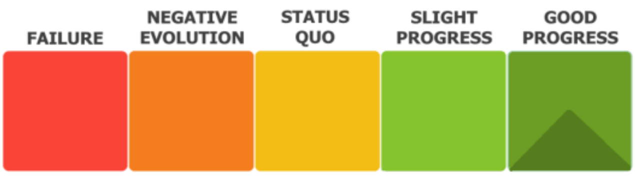
Indicator	Comment	SA reference
Financing sources for EU companies	Across all categories of firms domiciled in the EU (micro, small- and medium sized enterprises and large corporations), the main funding source remain internal funds and retained earnings, although decreasing significantly as the size of the firm increases. In contrast, bank loans and overdrafts remain the main source of external financing, which increases proportionally with the size of the firm: large corporations draw 25% of their total funding from banks and only 0.8% through bond and equity issuance. In this sense, compared to 2019 and 2015, the situation has not changed.	Table 14
EU SME markets	No update available yet	Figure 15

[47] Latest available data according to Eurostat (sbs_sc_sca_r2).
[48] Source: Eurostat; own computations.

Number of IPOs	The number of IPOs has grown significantly over the course of the pandemic lockdowns, particularly in 2021, exceeding the previous historical record of 2014 to reach a total of 383, of which: 324 for small caps (total capital raised through the IPO less than €200 million), 50 for mid-caps (total capital raised through the IPO over €200 million and less than €1 billion) and 9 for large capitalisation enterprises (total capital raised through the IPO over €1 billion). Moreover, in 2021 the total capital raised on public markets in the EU over 2021 through IPOs (regulated markets and multilateral trading facilities) reached €11.7 billion, which is still much lower compared to the €174.5 billion in the US. Overall, we observe an improving trend in this sense.	Figure 16
IPOs by type of trading	The majority of IPOs took place on regulated markets since 2017 (2015-2016 data breakdown not available), which shows the underdevelopment of SME IPO markets in the EU. The pilot project to develop the SME growth markets (which typically would take place on multilateral trading facilities) did not achieve its purpose. Although this indicator puts into a different perspective the evolution and number of IPOs in the EU, we note that the purpose of increasing SME participation in capital markets has not been achieved and the situation has stagnated in this sense (compared to 2017).	Figure 17
European private equity market	In terms of private equity financing for the EU economy, we note that both the total number of private equity funds and the total value of funds raised since 2015 has been constantly growing: from a total €53 billion and 431 funds in 2015, the single market reached €117 billion and 831 funds by the end of 2021. In this sense, we note a significant improvement, meaning that EU policies adopted in this sense (to stimulate private equity markets) have delivered on their objectives.	Figure 18
Domicile of private equity investors in Europe	The domicile of private equity investors in EU businesses has, since 2015, been mainly the EU, but it has been growing slightly over the past 6 years. By the end of 2021, the share of EU-domiciled "business angels" grew to 68%, with a very significant increase in Central and Eastern European (CEE) countries. Overall, we can conclude that this indicator has improved as well.	Table 19

Jump to Statistical Annex – KPI2.

Although there is less data to assess progress on this key performance indicator for the EU, we note that – with a few exceptions –Union policies were aimed in the right direction: the number of IPOs and the total value of funds raised on capital markets has grown significantly since 2015 by the end of 2021, as well as the size of the private equity market in the EU. As such, BETTER FINANCE will mark this KPI as good progress *from our point of view*.



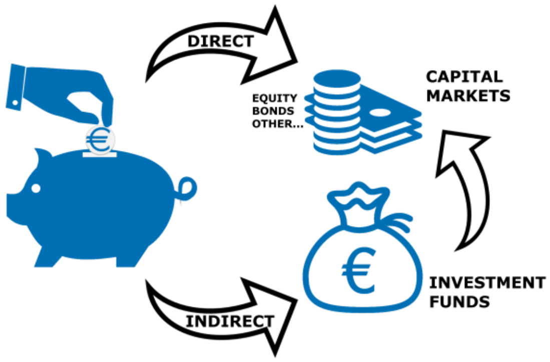
KPI 2: SME Participation in capital markets – good progress.

2.3 KPI 3 – Retail investments in capital markets

Summary

Did retail investors start to invest more in capital markets and long-term securities and has direct share ownership by households increased? Whereas European households indirectly invest in capital markets, there has been a decline of direct individual ownership of securities in Europe. The EC pointed to "*the lack of an equity culture (...) financial advisers are no longer marketing direct investment products (e.g., company shares and bonds) to retail investors*".[49]

Correlated actions/objectives of the ↗ CMU Action Plan (2020)	
Objective	Under the heading "*Making the EU an even safer place for individuals to save and invest long-term*", the CMU Action Plan highlights that "*the level of retail investor participation in capital markets remains very low compared to other economies*"; it also highlighted that "*retail investors do not benefit sufficiently from the investment opportunities offered by capital markets and cannot adequately address their retirement needs*".
Objective	The CMU Action Plan highlighted that "*the current structure and features of retail distribution systems are often insufficiently competitive and cost-effective*".
Action 3	Supporting vehicles for long-term investment
Action 7	Empowering citizens through financial literacy
Action 8	Building retail investors' trust in capital markets
Action 9	Supporting people in their retirement
Action 12	Facilitating shareholder engagement
Action 14	Consolidated tape
Correlated objectives for the ↗ Retail Investment Strategy (2021)	
As part of the third objective of the CMU, i.e., to build "*a more inclusive economy*", the CMU Action Plan announced the rolling-out of a "*retail investment* strategy" which was meant to "*focus on the interests of individual investors. It will seek to ensure that retail investors can take full advantage of capital markets and that rules are coherent across legal instruments*.	
The EU Strategy for Retail Investments is meant to ensure that individual, non-professional investors can "benefit from: • adequate protection, • bias-free advice and fair treatment, • open markets with a variety of competitive and cost-efficient financial services and products, and • transparent, comparable and understandable product information	
The European Commission further noted, in the Consultation Document for the EU Strategy for Retail Investments, that it also seeks to "*ensure that a legal framework for retail investments is suitably adapted to the profile and needs of consumers, helps ensure improved market outcomes and enhances their participation in the capital markets*".	



Retail investors have two means to participate in capital markets: directly, through acquisition of securities (shares, bonds, ETF units) or indirectly, through packaged products, such as investment funds. However, a study launched by the European Commission showed that, in 2016, only 43% of EU citizens had any savings in financial products.[50]

Source: BETTER FINANCE, 2019

[49] EC staff working document, CMU Green paper, 2015.

[50] European Commission, 'Distribution of retail investment products across the European Union' (2018) https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems_en.pdf.

As explained in the introduction, simply analysing the financial balance sheets of EU households (stocks) is not a clear indicator of their financial behaviour as it does not reflect movement in underlying indices and additional investments or divestments over a certain period. To accurately reflect changes in financial savings of non-professional investors, we must take into account the flows on each asset type.

Indicator	Comment	SA reference
Eurozone households' savings by type (financial/non-financial)	Except small fluctuations, the divide between financial and non-financial savings of Eurozone households has not changed significantly since the beginning of 1999. The quarterly average for non-financial savings (out of total savings) started at 53% (1999) and fluctuated between 52% and 63% quarterly, reaching 59% by the end of the first quarter of 2022. On average, Eurozone households divided their savings 58% to non-financial assets and 42% to financial assets (including currency and current accounts, which cannot be considered *per se* investments).	Figure 20
EU27 households' financial savings	Compared to 2015, EU27 households' total financial savings increased by €8.8 trillion, reaching €34.3 trillion by the end of 2021. The distribution between the various types of financial assets has remained unchanged in general, with just a slight increase for equities (unlisted shares and other equity) and investment fund units. In this sense, we did not observe an improvement since the launch of the CMU Action Plan in 2015.	Table 21
Evolution of EU27 households' financial savings	Looking at longer-term horizons, the latest available data for EU27 households' financial assets dates back to 2012. The allocation of savings almost did not change in the past 10 years: retail savers hold most of their capital in insurances & pensions (32%), followed by currency and deposits (31%), equities (23%, of which listed equities just 5%) and investment fund units (10%). Given that this data series provided by Eurostat does not adjust for market valuations, there is insufficient data to conclude that there has been a positive improvement.	Figure 22
EU27 vs Eurozone financial savings	The allocation of financial savings does not differ significantly between Eurozone and EU27 households in aggregate: the only variation is in the share of currency and deposits (slightly higher for the Eurozone) and equities (higher for EU27 households). However, looking at the breakdown of equity investments, we can see that both geographical areas have the same in listed shares, whereas the *other* type of equities weigh more for the EU27.	Figure 23
Equity holders by institutional sector	It is important to assess who are the largest investors in equities in the EU27 by institutional sector. Data from Eurostat shows that, out of the total economy, financial corporations are the largest holder of equity (49%), followed by non-financial corporations (25%) and households (20%). Listed shares are also concentrated in financial corporations' balance sheets (73%), followed by households (15%). Unlisted shares and other types of equity are mostly held by non-financial corporations (ownership in the firm) and households (firms created for business purposes).	Table 24
Investors in Eurozone NFCs by sector	Looking at the main shareholders of Eurozone non-financial corporations, we can observe that, again, financial corporations are the largest (26%), followed by NFCs (own equity), and lagging behind are Eurozone households (11%). This distribution of NFC equity has not changed significantly since 2015.	Figure 25

US households' direct equity ownership	To put in a comparative light, we analyse the direct equity ownership of US households: to begin with, US non-professional savers have a higher savings rate in financial assets than non-financial (66% vs 37%); second, their directly held corporate shares make up for 27% of the total financial assets in the last quarter of 2021 and 19% of total savings in the same period. Moreover, we observed a considerable increase since the beginning of 2015 (20% and 14%). Compared to Eurozone households, the direct equity ownership of US households is much higher as a percentage of total savings (19% vs 11%).	Figure 26
Eurozone equity flows	The financing dynamics towards shares in the Eurozone are also relevant: out of the total investment flows from households to different issuers, the largest sector was the corporate (60% in 2021, 61% on average since 2013). The next largest investment from households (in terms of shares) were financial corporates (intermediaries), other than banks and insurance companies (11%). The situation has not improved since 2015.	Table 27
Dispersion of investment funds in the EU by AuM	The EU investment fund market is concentrated around a handful of jurisdictions: the top two domiciles (by a wide margin) for UCITS ETFs are Luxembourg and Ireland, which is aligned with the broader picture. The number of funds and AuM (as a % of total) is 93% correlated across EU jurisdictions. At the same time, Luxembourg is by far the largest investment fund domicile in the EU, counting 23.7% of all funds and 29% of the AuM, followed by Ireland (13% and 18.5%).	Figure 28
Clients of EU investment funds	The largest beneficial owners of EU investment funds, in 10 out of the 14 years up to 2020, have been "retail" investors (households, on average 29%), although their share had been slightly decreasing in recent years. The next largest investor in EU investment funds, at least in the past 5 years, were pension funds, which are an institutional investor, but actually manage the money of "retail" savers exclusively (either directly in DC/CDC and indirectly DB schemes), followed by insurance companies (average 24%) and other financial institutions (asset managers, 23% on average).	Figure 29
UCITS market evolution by type of fund	The value of assets managed by UCITS grew by 70% since 2015: from €8.2 trillion at the end of 2015, it reached €13.9 trillion divided into equity funds (44% of the total), bond funds (24%), and other types of funds (32%), including money market funds, mixed, alternative funds, REITs and funds of funds.	Figure 30
AIF market evolution by type of fund	The same findings for the UCITS market stand true for the AIF sector as well: a strong growth of assets managed between 2015 and 2021, the market grew by 80% reaching €8 trillion AUM. However, the dominant asset class for AIFs are alternative investments (72%), followed by bond (14%) and equity funds (14%).	Figure 31
Evolution of EU ETF market	Perhaps the strongest performance is the EU ETF market, which used to be underdeveloped: while the number of listed UCITS ETFs grew constantly but only by 22% since 2015, the assets under management increased from €0.45 trillion to €1.33 trillion, representing a 295% growth.	Figure 32
Number of ETFs: EU vs US	Comparing to the US market, the EU ETF sector is less developed: in 2015, there were 2,637 ETFs registered in the US and 1,635 in the EU; by the end of 2021 (Q4), EFAMA reported 3,592 ETFs in the US versus 1,987 in the EU. However, these two jurisdictions are dominant worldwide, making up for 76% of all ETFs.	Figure 33

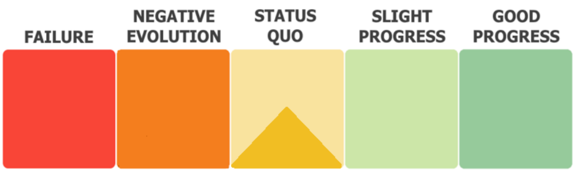
ETFs' AuM: EU vs US	The same remarks are valid for the EU vs US ETF market in terms of assets under management (AuM): in the US, ETFs use five times more capital (€6.6 trillion) than in the EU. Looking at the global picture, out of the total €8.8 trillion managed by ETFs worldwide, 90% is divided between the US and EU market, making these two representative for the global scene. In overall, both the number and capital of ETFs increased considerably since 2015.	Figure 34
EU27 insurers & pension funds' main investments	On average, insurance companies and pension funds in the EU held 32% of their portfolios in investment fund units and 40% in debt securities, leaving long-term equity investments as only the fourth largest holding in their portfolios (6%); the situation is almost identical for the Eurozone. Over time, the share of debt securities slightly decreased from 42% in 2012 to 36% at the end of 2021 in favour of mutual funds, whose share increased over the same period from 27% to 37%. Cash holdings and listed shares slightly fluctuated over the past 10 years around their average.	Figure 35
Number of retail investors	BETTER FINANCE's research[51] on the number of new, previously inactive savers that started to invest in EU's capital markets brings positive news on the topic: around four million individual savers started investing over 2020 and 2021 across thirteen jurisdictions analysed by BETTER FINANCE. The data we gathered is not sufficiently fine-grained to discern what exact types of investments were chosen, however we could observe a strong preference for listed shares and investment funds. For instance, Finnish companies counted almost 141,000 thousand more non-professional, minority shareholders, whilst in Germany the figure raised to around 500,000.	Table 36

Jump to Statistical Annex.

Evaluating retail investors' participation in EU capital markets is a difficult task given the lack of specific data. Looking at the distribution of households' financial savings, we observed no significant change: in the Eurozone, the share of savings allocated between financial and non-financial assets has been constant over the past 23 years. In the EU27, the financial savings of households have not varied since 2015. The EU mutual funds' market has grown significantly, with a prominence for UCITS ETFs, which could be correlated with the increased investments of retail savers in mutual funds over the two years of the pandemic.

EU investment funds' largest client category remain retail investors. Albeit a swift change in position in 2019 (with pension funds), direct investments from retail investors have made for the largest part of mutual funds' assets under management over the past fourteen years.

Banking, insurances, and pensions still make for the majority of financial savings of EU households. In turn, this capital is mostly allocated to debt securities and investment fund units, as shown by the average holdings of insurance and pension fund companies. Despite the new wave of investors observed in 2020 and 2021, we then mark this KPI as stagnating compared to the situation in 2015.



KPI 3: Retail investments in capital markets - stagnation

[51] https://betterfinance.eu/publication/the-new-investing-environment-for-retail-investors-expectations-and-challenges-ahead/

2.4 KPI 4 - The EU equity investment culture

Summary:

Employee Share Ownership is a key tool to promote long-term and equity investments into the real economy. Since 2015, the number of employee share owners in European companies rose steadily until 2020, but sharply dropped again by the end of 2021. However, the share of employee owners relative to the total number of employees has been declining. The stake in ownership plans were fairly constant, fluctuating around 3%, while the market capitalisation of shares owned by employees grew by 23%.

Correlated actions/objectives of the ↗ CMU Action Plan (2020)	
Objective	*"Shareholder engagement must therefore be further facilitated by making voting easier for all investors and corporate actions more efficient".*
Objective	*"There is a need to further support investment vehicles that channel financing to long-term investment projects".*
Action 8	Building retail investors' trust in capital markets
Action 9	Supporting people in their retirement
Action 12	Facilitating shareholder engagement

The assessment of this key performance indicator is based on the research and surveys produced by BETTER FINANCE's member active at European level in this field, the European Federation of Employee Share Ownership (EFES): "*to achieve the necessary progress, the European institutions can play a limited but significant role by providing the basic information in each EU language*". If employee share-ownership in the EU reached the level it enjoyed in the US in 2019, it would have multiplied the SME's share-ownership by 100 times (from \$13 billion to \$1.3 trillion), the market capitalisation of listed companies would increase by \$2 trillion, and the total plans would have multiplied by 6 times.[52]

Indicator	Comment	SA reference
Number of employee shareowners in European countries	EFES data aggregates the number of employee shareowners in European companies since 2007. The highest values observed were in 2010-2011, when it reached 7.3 million. Following a stagnation between 2015 and 2016, the total number of employees with stakes in the capital of their companies increased steadily to reach by the end of 2020 7.1 million, afterwards it dropped again to 6.9 million. Calculated as a percentage of total employees, the variation over the last 15 years has been much smaller: the highest value was observed in 2010, when it was reported at 24.1%, but then continued to decrease to reach 20.1% at the end of 2021, slightly lower than the value of 2015 (20.6%).	Figure 37-1
Holdings of employee shareowners in European countries	Looking at the figures characterising the holdings (shares) of employees in European listed companies, we can observe that the market capitalisation value broke 16-years historical highs three times: once in 2015, reaching €351 billion, then again in 2017, reaching €374 billion, and the current record in 2021 at €433 billion. Compared to 2015, this represents a 23% increase. However, calculated as a percentage of the total equity of the company (*stake in the ownership plan*), the situation is less positive.	Figure 37-2

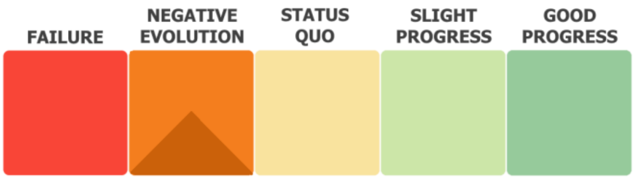
Jump to Statistical Annex.

[52] See European Federation of Employee Share Ownership, 'Employee Share Ownership: The European Policy' (May 2019 edition), page 10, available at http://www.efesonline.org/LIBRARY/2018/Employee%20Share%20Ownership%20--%20The%20European%20Policy.pdf.

Rebuilding an equity investing culture is key for the growth of the European economy, for its resilience against future shocks, and for enhancing the financial wealth of non-professional investors. As highlighted for KPI3 above, European households used to be the main shareholders of European listed companies, but now represent a negligible quantity. Moreover, listed shares represent just 5% of their total financial savings.

In addition to economic arguments, rebuilding an equity investing culture also stimulates stewardship and better governance of European businesses and activities, which will be key in the transition to a more sustainable economy. To achieve these objectives, one of the most powerful tools are employee share ownership plans, which will also prove pivotal to increasing the financial literacy level of European households and incentivising equity investing.

Some of the four metrics used to assess this KPI have increased compared to 2015, but they should be carefully analysed: the increase in the market capitalisation value of employees’ holdings is due to the performance of the shares themselves: looking at the stake in European listed companies’ ownership structure, the share is smaller than the highest observed values during 2015-2017 period. Equally, while the number of employee shareowners still shows a slight increase compared to the 2015 status (3%), its value relative to the total number of employees has been decreasing over the last few years. As such, we evaluate the performance of this KPI as a negative evolution.



KPI 4: The EU equity investment culture – negative evolution

2.5 KPI 5 - Investment returns for EU retail savers

Summary

The European Commission highlighted in 2013 that the “*other reasons for not saving long-term are the often-poor performance of financial intermediaries to deliver reasonable returns, and costs of intermediation*”.[53] In our view, this finding is still valid: in real net terms, the returns on households’ financial savings (mutual funds, insurance-based investments, and pensions) remain quite low and do not provide value for money.

Correlated actions/objectives of the ↗ CMU Action Plan (2020)	
Objective	*“Individual investors who nevertheless invest in the EU capital markets should, in many cases, be able to receive higher returns than is currently the case”*
Objective	*“Legislative framework should underpin a fair investment outcome for retail investors”*
Action 8	Building retail investors' trust in capital markets
Action 9	Supporting people in their retirement
Action 12	Facilitating shareholder engagement

Capital market returns must be attractive for “retail” savers to constitute a productive alternative to non-financial assets. Moreover, in the context of reducing the reliance on the banking sector, “retail” savers must be incentivised to diversify financial savings from short- and long-term deposits with returns that, after deduction of charges and inflation, deliver value for money and compensate the additional risk taken. In fact, it is important to note, for the benefit of our readers, that deposits with monetary financial institutions are not investments, but financial savings. Allocating savings to capital

[53] EC staff working document, long-term financing of the Economy, 2013.

market instruments, such as shares, bonds, investment funds, insurances, or pensions, may carry additional risks, but can be rewarded with higher returns than deposit interest rates.

BETTER FINANCE advised the European Commission to establish *Value for Money* as an additional safeguard in the retail investor protection framework, i.e., that brings the standard of protection to a higher level than what is currently required in sectoral legislation. At this stage, BETTER FINANCE advised EU authorities to focus on four core objectives: improve the target market adequacy, cost legitimacy and competitiveness, investment management and performance, as well as disclosures and reporting. The full advice can be found here.[54]

In the context of capital market returns, BETTER FINANCE again draws the attention to the "*monetary illusion*", i.e., the belief that the value of money remains the same or stable as years pass by. Through inflation, money loses its value, explained at length here.[55] As such, all returns or performances presented to retail investors should be inflation adjusted or complemented by the level of inflation over the reporting period.

It would be very difficult to obtain an accurate indicator of how much the average financial portfolio (Table 21 under KPI3) of EU households delivered given the lack of available data. However, we aim to analyse cost and return figures across the main categories of investment products, i.e.: direct investments (shares and bonds), mutual funds (UCITS & AIFs), insurance-based investments, and pensions. For information purposes, we also provide the interest rates for short- and long-term household deposits offered by banks in the Eurozone.

Indicator	Comment	SA reference
Average fees of investments in the EU (2017)	Data from 2017 show how much, on average, different types of packaged investment products cost in the EU. The most expensive were EU equity funds (1.89% average fees), followed by mixed funds (1.51%), pension products (1.45%) and life insurances (1.38%). The cheapest packaged investment products were, unsurprisingly, equity ETFs, charging on average 0.33% (almost six times less) than actively managed equity funds.	Table 38
ETF costs: EU vs US	The EU ETF market is booming and offers a very strong alternative to actively managed investments: the reports of ESMA on cost and past performance are consistent in the finding that, after deduction of fees, passive investments in overall outperform active ones. However, EU ETFs were still more expensive compared to US ones, mostly due to the smaller size of the market and its fragmentation: in 2017, an EU ETF cost 0.3% on average, while an US one cost 0.23%.	Table 39
Total expense ratios for UCITS (short-term)	Over the 2017-2020 period, the annual total expense ratio (TER) calculated by ESMA for EU equity and bond UCITS observed a very slight decrease, from 1.76% to 1.48% and from 1.19% to 0.96% respectively. The same trend can be observed on long-term horizons (10 years), with a slight, gradual decrease in TER from 1.77% to 1.60% and from 1.14% to 1.07% respectively. EU UCITS ETFs have considerably lower costs and hovered around 0.3% p.a. for both asset classes.	Table 40
Total expense ratios for UCITS (long-term)	The 10-year average total expense ratio (TER) calculated by ESMA for UCITS in the EU shows a slight decrease in costs: equity funds decreased from 1.78% to 1.48%, while bond funds from 1.19% to	Table 41

[54] BETTER FINANCE, *Answer to the European Commission Survey on Value for Money* (September 2022), available at: https://betterfinance.eu/publication/better-finances-answers-to-dg-fismas-discussion-note-on-value-for-money/.
[55] BETTER FINANCE, *EU Pensions Seem Doomed with 'Financial Repression' As The Only Game in Town* (October 2022), available at: https://betterfinance.eu/publication/background-eu-pensions-seem-doomed-with-financial-repression-as-the-only-game-in-town/.

	0.96%. The costs of equity UCITS ETFs decreased by a larger share, probably due to more competition and cost pressure in the market: the 10-year average in 2017 was 0.4%, whilst in 2020 it dropped to 0.3%, representing a 25% reduction. However, it seems that the cost of bond UCITS ETFs increased by 50% over the same period, from 0.2 to 0.3%	
"Costs" of unit-linked insurances (2020)	Insurance-based investment products tend to be more expensive given the additional cost arising from the "wrapper" (insurance contract). Unfortunately, we cannot know the actual cost in this market as EIOPA's reports use PRIIPs KID data which is not the actual cost or total expense ratio of IBIPs, but the future *reduction-in-yield*. Nevertheless, being the closest to an actual cost, we proxy these figures to compare with investment funds: In 2020, the "cost" of unit-linked life insurances in the EU varied from 1.3% in Portugal to 4.1% in France. Across the 24 jurisdictions in EIOPA's latest report (2022), the average reduction-in-yield stood at 2.61%. Data for hybrid and profit-participation products are available for a handful of jurisdictions and, thus, not representative for the EU market.	Figure 42
Stock market performance	We compare the long-term cumulative performance of the European narrow (large capitalisation) and broad (all sizes) company indices with the evolution of inflation over the same period. The average annual nominal net return of the European broad market was 4.5%, while for blue chips was 2.68%. After adjusting for inflation, the figures drop to 2.62% and 0.62%. Capital market indices do not carry fees.	Figure 42-2
Bond market performance	We compare the performance of the aggregate European sovereign (public) and corporate (private) bond index against inflation. The annual average return of the broad European bond market was 4.25%, representing a cumulative performance of 250%. In real terms, the figures drop to 2.16% and 160%, respectively. Capital market indices do not carry fees.	Figure 42-3
Proxy portfolio performance	We compute the returns of the proxy portfolio for the average European "retail" investor starting from Eurostat data. Available data extends only over the six years between 2015 and 2020. Over this period, we estimate the average EU27 household earned a cumulative 120% in nominal net terms and 109.5% in real terms, the equivalent of an annual average of 3.8% and 1.8%. However, the reference period was marked by strong equity and bond performances (affecting both direct holdings and investment fund returns).	Figure 42-4
European capital markets index	To offer a balanced approach – for diversified portfolios, as many retail savers may have a higher risk appetite than investing solely in bonds but lower tolerance to investing all in equities – we calculate the composite performance of a balanced benchmark of 50% equities (Figure 42-2) and bonds (Figure 42-3), which we present in nominal gross and real gross terms.	Figure 42-4
Equity UCITS performances (all)	According to ESMA data, EU equity UCITS returned an annual 7.53% gross nominal return between 2015-2020, equivalent of a compound 155% profit. However, after deducting fees, the return dropped to 5.43% (thus, fees accounted for an average 2.1% p.a.) and after adjusting for inflation the performance further dropped to 3.8%; thus, real net returns are half of the gross nominal ones.	Figure 43
Bond UCITS performances	EU Bond UCITS typically deliver lower returns than equity funds due to perceived lower risks. The annual average calculated using ESMA data, between 2015-2020 was 2.86% (cumulative 118%), then 1.31% in net terms (cumulative 108%) and passed in negative territory after deducting inflation (-0.26% p.a., -2.2% cumulatively).	Figure 44

Percentage of European investment funds outperforming their benchmark	According to data provided by the S&P SPIVA Scorecards, the number of equity funds in the EU outperforming their corresponding benchmarks (S&P broad market indices) is very low: since 2014, on an annual basis, in general less than half of the funds in scope outperform the market, and short-term performances are much better than long-term ones. Benchmark outperformance decreases on longer horizons (3, 5, and 10 years). In the Eurozone and France, only 8% of funds delivered returns higher than the market between 2012-2021, whereas in the Netherlands none outperformed the S&P Netherlands Broad Market Index.	Table 45
Nominal and real returns of IBIPs (2015-2020)	Based on EIOPA data, we aggregated the returns of insurance-based investment products over the 6 years between 2015 and 2020 for unit-linked insurances, hybrid products, and profit-participation products. The best performing, on average, were unit-linked products, delivering an average 3.8% returns (nominal net, cumulative 125%) and 2.2% (real net, cumulative 114%). Profit-participation products delivered 1.4% on average over the same period (109%, nominal) and lost 1% of the value invested after adjusting for inflation (-0.2% average, cumulative 99%). For hybrid products, data is available only as of 2016: the average nominal net return was 2.1% and, after adjusting for the 1.6% annual inflation rate over 2016-2020, the real net return stood at 0.4%.	Table 46
Real case of retail French equity fund	Returns on pension savings are difficult to obtain as the majority (of these vehicles) do not have the same reporting period. However, BETTER FINANCE takes a few examples as proxied for different pension markets, e.g., in France. The real case shown in Figure 47 illustrates an investment fund domiciled in France, a so-called retail CAC 40 "index" fund. The fund actually underperformed the relevant equity index by 78.5 p.p. after 22 years of existence (1.85% per year), with the performance gap fully attributable to fees.	Figure 47
Cost and returns of French life insurance contracts	Data from GoodValueforMoney (2022) shows the characteristics of the French distribution market for unit-linked life insurances: dominated by "classic" contracts (93%), the costs are almost twelve times higher than index-tracking ETFs (2.98% average charges vs 0.25%) whereas the nominal net returns (without deducting inflation) are almost twice higher for the latter. This table shows the detrimental effects of the commission-based distribution model produces for non-professional clients in the French market – and, potentially similarly in other markets as well.	Table 48
Real return of all French life insurances	Data aggregated in the BETTER FINANCE annual report on the Real Returns of Long-term and Pension Savings[56] (latest edition: 2022) shows the nominal and real net cumulative performances and annual average returns of all life-insurance contracts (by asset class and aggregate) in France. Before adjusting for inflation, French life insurances delivered an average 2.64% annually since 2000, making for an additional 74% return on investment (cumulatively). However, after taking into account inflation, the annual average dropped to 0.96%, which amounts to a profit on investment of 23%.	Table 49
Real case of BE life insurance	Also from the BETTER FINANCE pensions report, we analyse the "real" case of a group life-insurance (used for retirement provision) in Belgium, which we compare against its benchmark. The nominal net performance of the life-insurance product is below even the real net return of its	Table 50

[56] https://betterfinance.eu/publication/the-real-return-long-term-pension-savings-report-2022-edition/

	market index, i.e., cumulative performance over the past 22 years of 182% (nominal) vs 183% (real terms of the market).	
Before tax annualised returns on pension savings (long-term)	It is relevant to show the annual average returns – based on the maximum data available to BETTER FINANCE – of a wide range of pension products in 16 jurisdictions across the EU. Again, we deduct inflation from these returns and then compare with the return of a balanced capital markets benchmark (50% equities and 50% bonds, broad market) to observe that only four out of the 41 products analysed outperformed the index on their respective reporting periods.	Figure 51
Eurozone bank interest rates for household deposits	After a short period of increase between 2009 and 2012, the interest rates offered by Eurozone banks to households' short- and long-term deposits, the remuneration for keeping money in a bank account have continued to decrease – constantly, up until the first quarter of 2022. While the difference between the 2015 and end of 2021 levels is not a major one (for instance, 1.53% and 0.67% for long-term deposits), these interest rates have been far below the historical annual average inflation rate for the Eurozone, i.e., 1.78% (December 1999 – December 2021).	Figure 52

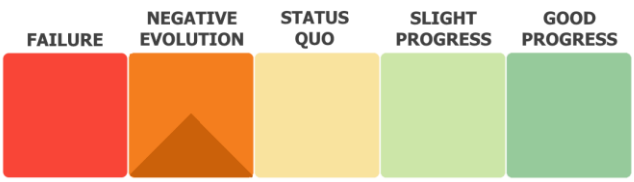
Jump to Statistical Annex.

Although a certain price competition can be observed for investment funds' costs, publicly available data is insufficient to draw conclusions for all packaged investment products. Most notably, no actual cost data is available for insurances and pension products, which make up for a third of EU27 households' portfolios.

As returns are concerned, we must first distinguish between capital market returns (listed shares and bonds) and packaged product returns. While direct investments do not carry fees, the share of these financial assets in the balance sheets of households is very low (7%); these then make a very small difference for the returns of "retail" investors. Investment funds (equity and bond UCITS) delivered good, positive returns in nominal terms between 2015 and 2020, but after deduction of inflation, these dropped significantly. The same can be said of insurance-based investment products (unit-linked, hybrid, and profit-participation life insurances).

The proxy portfolio constructed and calculated by BETTER FINANCE shows an annual average nominal net return on investments of 3.8% over the six years between 2015 and 2020, which dropped to 1.8% after deducting inflation. However, these returns are significantly inflated due to the exclusion of deposit interest rates, Euribor rates, unavailability of return data on loans, AIFs, and derivatives.

All in all, BETTER FINANCE concludes for this Key Performance Indicator that the returns for "retail" savers' capital are still very poor and will be significantly lower once 2022 data is available – considering the spiralling inflation rates observed this year.



KPI 5: Investment returns for EU retail savers

2.6 KPI 6 – Coherence of rules in sectoral legislation

Summary

Sectoral legislation for EU financial markets comprises large and significant gaps. Weak attempts for harmonization across products and markets have not brought positive results, as policy initiatives still focus on individual markets, considered in isolation from others. The upcoming EU Strategy for Retail Investments brings the promise of a more harmonized investor protection framework.

Correlated actions/objectives of the ↗ CMU Action Plan (2020)	
Objective	*"individual investors who nevertheless invest in the EU capital markets should, in many cases, be able to receive higher returns than is currently the case"*
Objective	*"legislative framework should underpin a fair investment outcome for retail investors"*
Action 8	Building retail investors' trust in capital markets
Action 9	Supporting people in their retirement
Action 12	Facilitating shareholder engagement

The purpose of all CMU Action Plans (2015, 2017, and 2020), as well as the objectives for the EU Strategy for Retail Investors, is also to ensure a "level playing field" between financial services providers in terms of regulation and supervision. This we translate into the *coherence of sectoral legislation* indicator, that is whether the obligations (conduct of business and investor protection) to which the product manufacturers and financial services providers across different markets (at least, insurance, pensions, and securities) are held to are the same or not.

Based on our research, so far it has not been the case, on the contrary. The "silo" approach characterising EU policymaking for regulating financial markets remains prevalent: policy initiative and regulatory reforms are adopted in isolation from each other. EU authorities do not take a holistic view on consumer protection in financial services. This not only creates a regulatory burden due the complexity of applicable legal instruments, but at the end of the day also makes the degree of protection retail investors can rely on vary heavily based on the type of financial product they choose to invest in.

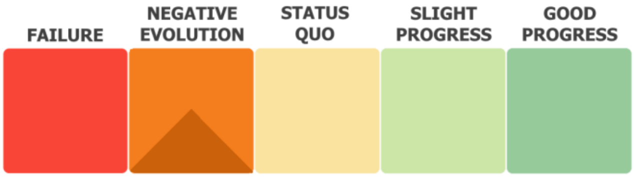
The first harmonisation attempt made on pre-contractual disclosures has not yielded positive results. Although the Key Information Document (KID) for packaged-retail and insurance-based investment products (PRIIPs) applies to a very large spectrum of "retail" investments, its contents are very difficult to understand for clients, non-comparable with other products, and conflicting with or duplicating existing disclosures under sectoral legislation (e.g., MiFID II ex-ante cost disclosures).

With the ink still fresh on the PRIIPs KID Regulation, the EU set out to harmonise rules across the EU to create a Pan-European Personal Pension product (PEPP). The PEPP provides for a standalone pre-contractual disclosure document, the PEPP Key Information Document, which despite attempts to make it similar to the PRIIPS KID, differs from it on several aspects, adding to the information overload and disclosure complexity for non-professional clients.

On distribution of investment products, namely advice, selling, and execution-only services, no harmonisation progress was even attempted. There are still large differences between MiFID II and IDD, which have the highest and second highest standard of protection in this light compared to other consumer financial markets. Furthermore, these standards of investor protection are still weak and leave the consumer in a difficult position.

Although it was not explicitly stated in either of the action plans, the EU failed to deliver a regulatory framework that requires investment services providers and product manufacturers to deliver *value for money*. For the fifth year in a row, BETTER FINANCE strongly advises EU authorities to define value for money for all categories of EU investment products. Moreover, the revamped attempts to create a framework for Value for Money have so far focused on MiFID II-regulated products, which make up for only 15% of EU households' financial balance sheets. In parallel, the European financial supervisors are seeking – through soft law and supervisory convergence – to impose obligations regarding value for money. The most recent of these attempts is EIOPA's methodology for assessing value for money in the unit-linked life insurance market. Hopefully, the upcoming EU Strategy for Retail Investors, the main action announced in the CMU Action Plan, will consider at least securities and insurance markets as a whole. BETTER FINANCE advocates for a Single Rulebook on Retail Investments.

As such, we evaluate the evolution of this KPI since the launch of the first CMU Action Plan in 2015 as a negative evolution.



KPI 6: SME Coherence of rules in sectoral legislation – negative evolution.

Jump to Statistical Annex.

2.7 KPI 7 – Sustainable finance outlook

Summary

ESG funds and green bond markets have grown globally, but EU capital markets are still experiencing wide gaps with most sustainability assets concentrated in a small portion of Member States. The lack of transparent data and common definitions further complicate this analysis and raise greenwashing concerns for retail investors.

The CMU Action Plan does not contain any objectives or specific actions related to sustainable finance. However, BETTER FINANCE sees these two topics as intertwined; we will then treat them holistically in the report as a KPI for the achievement of the CMU.

Sustainable finance has great potential in redirecting capital to green and climate-related activities and markets around the world, including in Europe. It carries the potential to be a part of the global solution to transitioning to climate neutrality. Prompted by governments, regulators, businesses, investors and customers, the recent evolution in sustainable investing is informed by the view that the achievement of positive societal outcomes via sustainable finance is consistent with long-term value creation. In other words, investors can achieve, at minimum, market-based financial results while also having a positive impact on society and the environment. ESMA published its latest study on the topic earlier this year, which highlights that funds with inclusive environmental, social and governance (ESG) features are not only cheaper but perform better in comparison to non-ESG funds.[57] However, the sustainable finance ecosystem has grown not only in size, but also complexity.

Challenges: data and transparency | Identifying appropriate indicators to assess the progression of capital markets in relation to sustainable finance is extremely difficult. This is mainly due to the fact that trends related to ESG funds and sustainable assets are determined not only by a handful of providers who have access to such data, but also because of the limited sustainability-related disclosure practices, which lead to information asymmetry about actual sustainability performance of assets. This lack of

[57] ESMA, *The drivers of the costs and performance of ESG funds (May 2022),* available at: https://www.esma.europa.eu/sites/default/files/library/esma_50-165-2146_drivers_of_costs_and_performance_of_esg_funds.pdf

harmonisation leaves a wide scope for interpretation of key definitions and investors lack a reliable information to compare data in order to take a more informed approach with their investing.

There are only a few ESG ratings agencies that dominate the market, their methods and decisions in assigning an ESG score to a given company is unclear[58]. Their main source of information may be companies that may or may not disclose their ESG strategies publicly and the scoring for the same company often remain very different across different rating agencies. This contributes to an extremely untransparent practice for investors who have no way of navigating data that is inconsistent and difficult to compare.

Challenging regulatory landscape | The challenges to policymakers are threefold: a) ESG markets are still underregulated, b) comparable and reliable ESG data are difficult to obtain, and c) common definitions and underlying concepts are yet to be developed fully and become consensual. As a consequence, the EU regulatory landscape is improving at a very slow pace. The EU-wide classification system, the so-called taxonomy for sustainable activities, is at the core of the EU's sustainable finance strategy, alongside the Sustainable Finance Disclosure Regulation (SFDR)[59] and the proposal for a Corporate Sustainability Reporting Directive (CSRD)[60]. While such instruments may prove useful and provide clarity to investors as well as capital market participants, their extended timeline and possible misinterpretation by companies may accelerate greenwashing and dilute sustainable finance flows from within capital markets in Europe. It should also be noted that ESG disclosures and taxonomies are the instruments of choice across many other jurisdictions outside Europe too.

The SFDR came into force in March 2021 and regulates product and service-level disclosures. It requires manufacturers of financial products and financial advisers to disclose how sustainability factors are integrated into their investment processes and financial products. The EU's SFDR regime requires funds to be categorised as either Article 8, meaning they promote 'environmental or social characteristics, or a combination of those characteristics', also known as 'light green' or Article 9, where the mandate requires, they purely focus on sustainable objectives, otherwise also known as 'dark green'. One of the main challenges with the classification of funds is that the definition of sustainable economic activity lacks a certain threshold and leaves too much flexibility which in turn makes it very difficult for investors to monitor and differentiate between holdings in Article 8 and 9 SFDR aligned portfolios.

Furthermore, the lack of clarity may lead to intentional or unintentional greenwashing and further confusion among market participants. Since the beginning of November 2022[61], multiple funds are re-classifying some of their Article 9 funds to the less demanding Article 8 ahead of 1 January 2023, when more stringent rules come into force. These shifts raise some red flags for retail investors as it suggests that the original classification was inappropriate in the first place; retail investors' trust may be increasingly dampened as a result. This reclassification also suggests that the fund would not have made any actual changes to the portfolios, but simply move them onto a less ambitious category which ultimately misleads investors. As a result, capital markets and their relationship with sustainable finance may become more complicated and harder to assess, given the way data is manipulated and thus may not represent an actual contribution towards a more developed capital market across Europe.

Similarly, with the CSRD proposal which regulates entity-level disclosures by targeting all large and listed companies in the EU which are obliged to disclose sustainability information will only be required to do so in 2025. Therefore, until 2025 companies will have a lot of leeway in terms of sustainability reporting.

[58] https://www.esma.europa.eu/press-news/esma-news/esma-publishes-results-its-call-evidence-esg-ratings
[59] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088
[60] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189
[61] Bloomberg, *Reclassification of ESG ETFs on EU rules* (November 2022), available at: https://www.bloomberg.com/news/articles/2022-11-11/blackrock-reclassifies-26-billion-of-esg-etfs-due-to-eu-rules?leadSource=uverify%20wall

Indicator	Comment	SA reference
US and European value of sustainable assets	Data shows that though sustainable assets have been growing steadily on a global scale between 2016 - 2020, Europe appears to have a slight decline of 12% on its total value of sustainable assets between 2018 and 2020. While some of this decline could be due to the regulatory changes in the EU, growing concerns of retail and professional investors over greenwashing and uncertainty behind sustainable finance definitions and practices could also explain the current trend. It may also be too early to draw definitive conclusions on trends of sustainable investing assets from the viewpoint of greenwashing concerns and how much this may have impacted the reduction for Europe in 2020 - as there no comprehensive information or data that can be tracked regarding greenwashing claims. However, the growth of sustainable assets in Europe appears clearly sluggish for the period 2016-2020 when compared with the US - where the overall value of sustainable asset jumped from €8 trillion in 2016 to €17.54 trillion in 2020.	Figure 53
Global share of sustainable assets	Globally, the proportion of sustainable investing assets has grown and represents 36% of the total assets under management in 2020, up from 33% at end-2017 and 27% at end-2015.[62] Data also illustrates that Europe accounts for 34% of global sustainable assets in 2020, down from 46% in 2017, while the US represents a 48% share, up from 39%. Overall, assets under management categorised as sustainable have grown by 15% between the end of 2017 and the end of 2019, and in terms of value, sustainable investments at the beginning of 2020 stood at over €35trn, outpacing the growth of the broader market.[63] While the US and Europe combined represent over 80% of total sustainable investment assets worldwide in 2020, this has changed during 2021 which is also illustrative of the variation of regulatory landscapes and industry standards. Subsequently, any figures as well as data remain difficult to obtain for the last two years as jurisdictions are constantly adapting new definitions that reclassify sustainable assets and their scope.	Figure 54
AuM of sustainable funds	It is evident that the EU, US and the rest of the world have seen a rapid growth of the number of funds as well as their assets throughout 2016 – 2020, whereby amount of AuM has grown from €405 billion in 2016, to €1.7 trillion in 2020. Europe clearly dominates the market over this period, and sustainable funds accounted for 18% of assets on the European fund market, reflecting the relative maturity of the market and the impact of sustainable finance regulation in Europe.	Figure 55

[62] Global Sustainable Investment Alliance, *Review 2020*, available at: http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf

[63] https://www.bloomberg.com/news/articles/2021-08-18/-35-trillion-in-sustainability-funds-does-it-do-any-good?leadSource=uverify%20wall

	The United States is the second largest market, however changes to regulations implemented by the Labour Department[64] to make it easier for retirement plans to invest in sustainable funds and new regulations adopted by the Securities Exchange Commission[65] on disclosure of climate risk may speed up development of the sustainable fund market in the United States. Additionally, the increase of the total value of AuM globally may be interpreted as a uniform growth across capital that is re-directed with the intention of sustainable activities.	
Net assets of European ESG funds	ESG funds' assets grew by 37% in 2020 to reach €1.2 trillion compared to traditional funds' AuM which grew only by 4.8%. These figures are more than double when compared to previous years and the growth rate clearly reflects not only the surge of new ESG funds and integration of ESG criteria into already existing funds, but also coincide with an increased demand from both retail and institutional investors for sustainable assets. This finding also suggests that ESG funds (both equity and bonds) have a higher average gross return than non-ESG funds. This is supported by ESMA's findings in the latest annual report on cost and past performance.[66] At the end of 2020, investment in sustainable funds accounted for 11% of all European net assets under management, up from 5% in 2018. Interestingly, ESG mutual funds and ETFs accounted for about 25% of all European products in 2020 – however this trend may not be reflective of overwhelmingly positive direction for sustainable efforts as the actual rebranding of ESG funds by asset managers contributed to one-third of the growth.	Figure 56
Green and sustainable bond issuance in Europe	Since the issuance of the first green bond in 2007 by the European Investment Bank[67], green bonds have remained dominant, although social bonds and later sustainability bonds, have also contributed to a market diversification. The green bond market globally grew by an average of 50 % per year in the period 2015-2020.[68] Both green and sustainable bond issuance in Europe has been growing consistently since 2015 too. In figure 5 we can see that issuance of green bonds saw an increase of over 90% between 2020 (€132 billion) and 2021 (€252bln). Sustainable bonds on the other hand saw an increase from €25 billion in 2020 to €42 billion in 2021, representing over 30% increase. This is unfortunately not representative of a uniform increase towards green and sustainable bond issuance across all European countries, in fact the biggest contributors to this trend are Germany, France, and the Netherlands.[69] Sustainable financial instruments – such as green, sustainable	Figure 57

[64] https://www.dol.gov/newsroom/releases/ebsa/ebsa20211013
[65] https://www.sec.gov/news/press-release/2022-46
[66] https://www.esma.europa.eu/sites/default/files/library/esma_50-165 1677_asr_performance_and_costs_of_eu_retail_investment_products.pdf
[67] https://www.eib.org/en/stories/15-years-green-bond
[68] https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/698870/EPRS_BRI(2022)698870_EN.pdf
[69] https://www.ecb.europa.eu/pub/financial-stability/macroprudential-bulletin/focus/2021/html/ecb.mpbu_focus202110_3.en.html

	and sustainability-linked bonds, and ESG funds – still represent less than 10% of their respective markets in the euro area. Since an official register of ESG bonds does not exist and as mentioned before, quantity may not necessarily imply quality, it remains difficult to definitely conclude whether or not capital markets are meeting sustainability goals.	
Share of global green bonds denominated in €	EU is gaining tract to lead in green bonds, with 48 % of global issuances in 2020 being denominated in euros. These figures are up 16% in comparison to 2016 figures which is indicative of a steady growth. According to the ECB, green bonds were issued in 33 currencies in 2020 one less than the year before.[70] The share of the top three currencies – EUR (48%), USD (28%) and CNY (6%) – increased to 82%, compared to an 80% share the previous year but still lower than the 84-90% achieved between 2015 and 2018. Despite these encouraging figures, current green bond issuance in the EU still only represents 2.6% of total EU bond issuance. Further growth in the market for high quality green bonds could be a source of significant green investment, helping to meet the European Green Deal targets. Interestingly, the proportion of green bonds relative to total bond issuance denominated in euro rose to almost 9% by the end of 2019, compared to 2.1% for bonds in US dollars and around 2.5% for bonds in other currencies. The leading role of the euro however does not account for other capital markets in the EU that do not belong in the euro area.	Figure 58

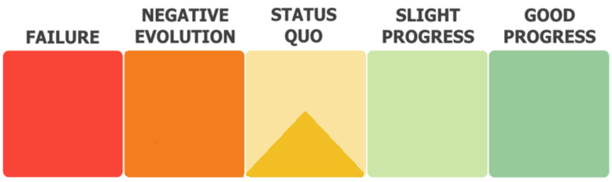
Jump to Statistical Annex.

The number of sustainable assets has decreased in the EU. Even though clear and consistent data in this field remains scarce and not easily available, it is evident that markets are disproportionally centred on a few of the Member States, with Eastern European markets lagging behind their central and Western counterparts. In addition, sustainable investing in Europe appears underdeveloped when compared to the US and in general sustainable funds only account for less than 5% of the global fund markets, despite Europe's share of in the global sustainable funds market. The negative trends are exacerbated by a growing ESG market riddled with greenwashing practices, and the lack of transparency and regulatory standards have skewed the prospect of associating integration of ESG metrics with actual sustainability-aligned outcomes due to their voluntary labelling.

Similarly, the increase of green and sustainable bonds in Europe mostly concerns a handful of member states and still represents less than 10% of their respective markets. The lack of an official register of ESG bonds as well as a sole focus on the euro area's share of global green bonds further marks a negative evolution of sustainable finance regarding the capital markets union as it does not take into account all members of the EU. In order to improve this, the EU needs to instigate clear and transparent ESG methodologies and reporting as well as rules and procedures related to greenwashing, that are applicable and inclusive of all European markets. This will not only benefit the research and analysis in

[70] https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2728~7baba8097e.en.pdf

this field, but also better inform investors and other stakeholders on the state of play regarding sustainability activities.

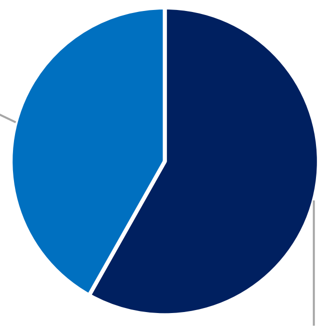


KPI 7: Sustainable Finance Performance – stagnation

Statistical Annex

EC toolkit of indicators to measure CMU progress

Eurozone household savings, quarterly average, 1991 - 2022



Source: Own composition based on ECB data

Example	T_0		T_1		
Indicators/assets	Value (€)	Value (as % of total)	Value (€)	Growth rel. to cash & deposits	Value (as % of total)
Cash & deposits	10,000€	33%	5,000€	-	17%
Direct investments	10,000€	33%	10,000€	2:1 (200%)	33%
Intermediated investments	10,000€	33%	15,000€	3:1 (300%)	50%

Source: BETTER FINANCE, 2022; T_0 is the initial phase; T_1 is the secondary phase

Knowing the aggregate values of households' financial savings is insufficient given that market valuations of assets are embedded in these figures. Looking at the table below, how can one know whether the increase in listed equity is due to retail investors buying shares (or more shares) rather than an increase in equity indices? The same stands for other financial assets.

in € millions	EU27				Index performance
Type of account/year	2016	2020	Δ€ '16 - '20	Δ% '16 - '20	2016-2020
Total	26,562,712	27,503,802	941,090	3.5%	-
Currency & bank deposits	8,257,725	8,918,036	660,311	8.0%	1.5%
Debt securities	719,982	601,282	-118,700	-16.5%	13.5%
Listed equity	1,085,585	1,063,932	-21,653	-2.0%	29.7%
Investment funds	2,340,228	2,370,710	30,482	1.3%	16.9%
Insurances & pensions	8,848,601	9,177,018	328,417	3.7%	N/A

Source: BETTER FINANCE own composition based on Eurostat, ECB, STOXX, Bloomberg, ESMA data; for currency & deposits, we used an average of the EURIBOR 12-month rate and the long-term deposit rate (M>2y); for debt securities, we used the Bloomberg Pan-Euro Aggregate Bond Index gross returns; for listed shares we used the Stoxx All Europe Total Market gross return index; for investment funds we used the gross 5 year returns on equity, bonds, and mixed UCITS (equal weighting, gross returns).

The table above compares the change in the total value of household financial savings in monetary (€) terms and relative (%) to the total financial assets between 2016 and 2020. It also shows the evolution of their underlying indices.[71] The purpose is to discern how much of the change is due to investments/divestments and how much due to asset performance. For instance, Eurostat reports €0.6 trillion more in currency and bank deposits between 2016-2020, which would mean 8% more deposits

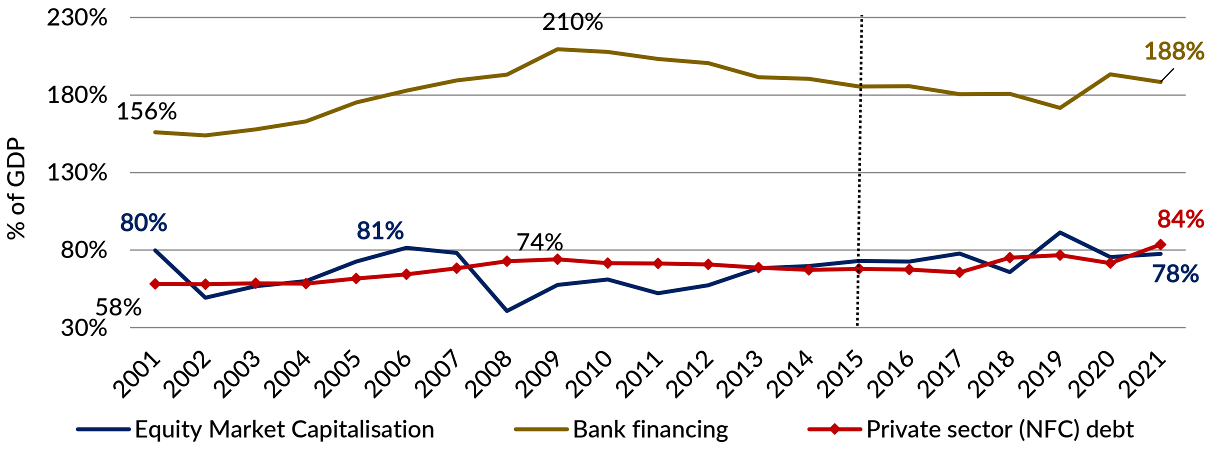
[71] The exercise is very much based on methodological assumptions and proxies (that are not fully representative of the whole EU27 market) but it is meant to show that this indicator – the value of household investments – is heavily impacted by market returns.

attracted from households. However, the money market interest rate and the long-term rate offered by banks on deposits accounted for 1.5% of this increase.

Jump back to analysis.

KPI 1 – Capital market funding vs bank funding

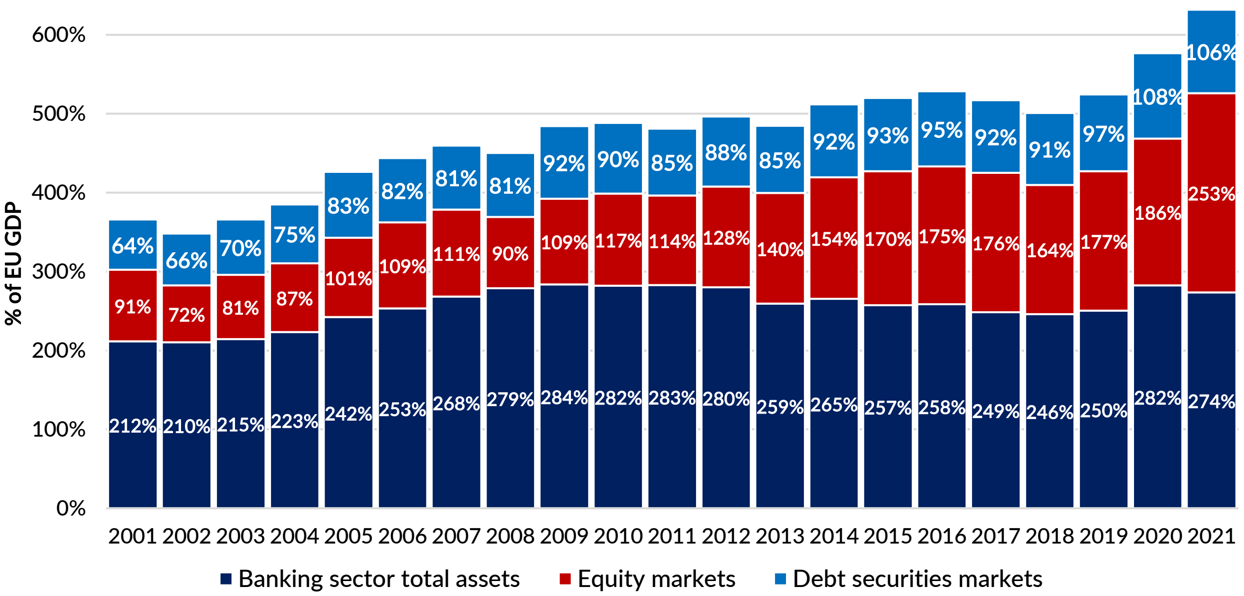
Figure 1. Equity vs Bank funding volumes



*Source: Eurostat; AFME; World Bank database; own composition; *FC = financial corporations*

Additional explanations: The equity market capitalisation value corresponds to the whole EU; the bank financing volume represents the total value of loans and debt securities held by monetary financial institutions in the EU; the private sector (NFC) debt represents the total value of debt instruments held by non-financial corporations in the EU.

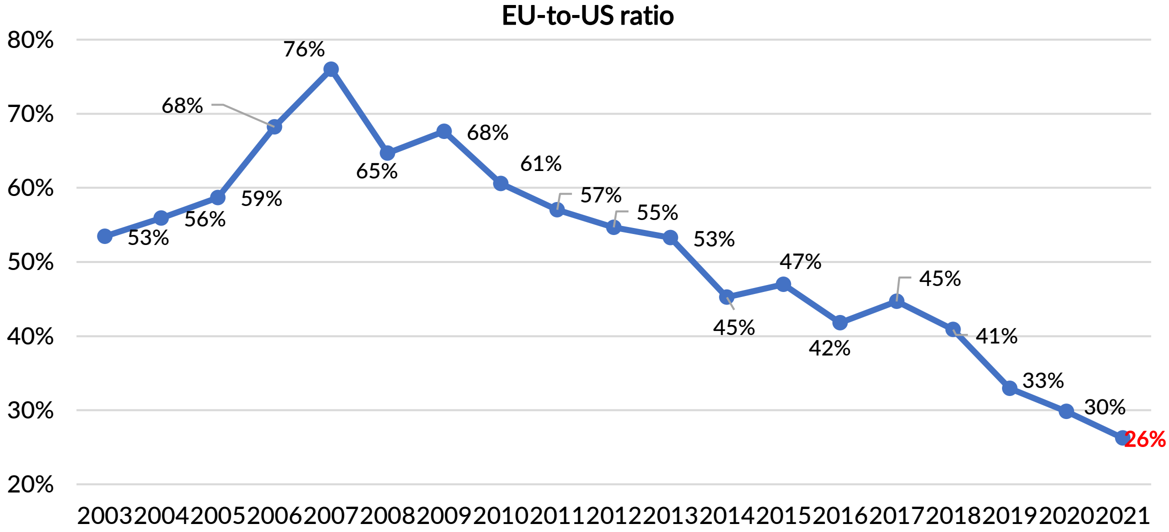
Figure 2. Depth of securities markets compared to banking sector



Source: Own composition based on Eurostat data

Additional explanations: The depth, or size, of EU financial markets is also a good indicator to assess the prevalence of funding channels. The EU27 total economy's debt and equity markets rose to 359% of GDP by the end of 2021, the largest value of the past 21 years. However, even at this historical high, determined by limited consumption during the global health pandemic and a surge in "retail" investments, EU capital markets were still equal to the total financial assets of the banking sector alone. In other words, the debt and equity holdings of the entire EU economy is just slightly higher than the total assets of the banking sector.

Figure 3. Equity Market Capitalisation (€) - EU-to-US ratio



Source: Eurostat; Federal Reserve Economic Data; own computation

Table 4-1. EU, US and WW stock markets (2015)										
Region	Number	Number of listed companies				Market cap (€ trn)		Number of trades (EOB, bln)	
		Total		Domestic					
	no.	no.	of total	no.	of total	value	of total	value	of total
EU	16	8,457	16%	7,982	16%	6.86	10%	1,113.69	5%
US	3	5,283	10%	4,381	9%	23.0	33%	3,549.0	15%
WW	90	53,223		49,996		70.5		24,043	

Source: own composition based on data from the World Federation of Exchanges; WW stands for worldwide; EUR/USD converted at 31/12/2015 rate provided by ECB

Additional explanations: In 2015, companies listed on EU exchanges (excl. LSE) represented 10% of the global market capitalisation, three times less than the value of US-listed companies. Out of the total 24 billion equity trades recorded on electronic order books (EOB), 5% were on EU securities markets and three times more on the three main US-domiciled venues. By the end of 2021, the numbers have deteriorated: out of the 46 billion trades, only 3% took place in the EU due to the uncontrolled proliferation of systematic internalisers and OTC trades in the EU. The number of listed companies grew by 8% and their total market capitalisation grew by 78%. However, adjusted for inflation, the real growth is only of 59%; overall, this is a good improvement.

Table 4-2. EU, US and WW stock markets (2021)

Region	Number	Number of listed companies				Market cap (€ trn)		Number of trades (EOB, bln)	
		Total		Domestic					
	no.	no.	of total	no.	of total	value	of total	value	of total
EU	16	9,117	15%	7,574	14%	12.2	11%	1,480.49	3%
US	3	6,204	10%	4,806	9%	46.1	42%	10,494.9	23%
WW	90	59,447		54,347		109.9		46,053	

Source: own composition based on data from the World Federation of Exchanges; WW stands for worldwide; EUR/USD converted at 31/12/2021 rate provided by ECB

Stock exchanges operating in the EU counted a total of 9,117 listed companies at the end of 2021 (compared to 10,572 in 2018), 56% more than the number of US ones, yet representing merely a quarter of their market capitalisation. At global level, EU listed companies make for 15% of the total but only 11% of the market capitalisation, compared to the US market which dominate the global scene. In the EU, trading is concentrated in a few financial centres, while some countries have underdeveloped markets. More recently, due to a "surge" in retail investing, some local stock exchanges have reached historical records (for instance, the Romanian stock market beat its historical record for market capitalisation twice in 2020 and again in 2021).[72] Albeit this, in some local markets merely 31 companies are listed for trading.

In 2015, EU listed companies (excl. LSE/the UK), raised a total €133.8 billion through capital markets, €33.2 bln less than US-domiciled publicly traded companies; as part of the global market, the equity financing for EU companies represented 16%, whereas in the US counterpart the value represented a fifth. In terms of primary markets (newly issued shares in IPOs), issuances in the EU stood for 7% of the worldwide total.

Table 4-3. EU, US and WW stock markets (2015)

Region	Number	Capital raised - listed (€ bln)				Capital raised (IPOs) € bln			
		Total (€ bln)		New shares		Total		New shares	
	no.	no.	of total	no.	of total	value	of total	value	of total
EU	16	133.8	16%	76.9	20%	13.7	8%	5.38	7%
US	3	167	20%	n/a	n/a	n/a	n/a	n/a	n/a
WW	90	853		388		173.0		78	

Source: own composition based on data from the World Federation of Exchanges; WW stands for worldwide; EUR/USD converted at 31/12/2015 rate provided by ECB

Comparing with end of 2021 figures, the situation has slightly improved in nominal terms: EU companies obtained €112 billion worth of equity financing through the issuance of new shares, representing 26% of the global total; for IPOs, the value is sevenfold higher, with €35.23 billion through newly issued shares on IPO primary markets, taking a fifth in the global picture. However, the growth must be adjusted for inflation:

- capital raised through new share issuance on secondary markets: +45.64% nominal, +30.4% real;
- capital raised through new share issuance on primary markets: +654%; +586% real.

[72] See BETTER FINANCE, *The New Retail Investing Environment: Expectations and Challenges Ahead* (May 2022), Romanian chapter, p. 46, available at: https://betterfinance.eu/publication/the-new-investing-environment-for-retail-investors-expectations-and-challenges-ahead/.

Table 4-4. EU, US and WW stock markets (2021)

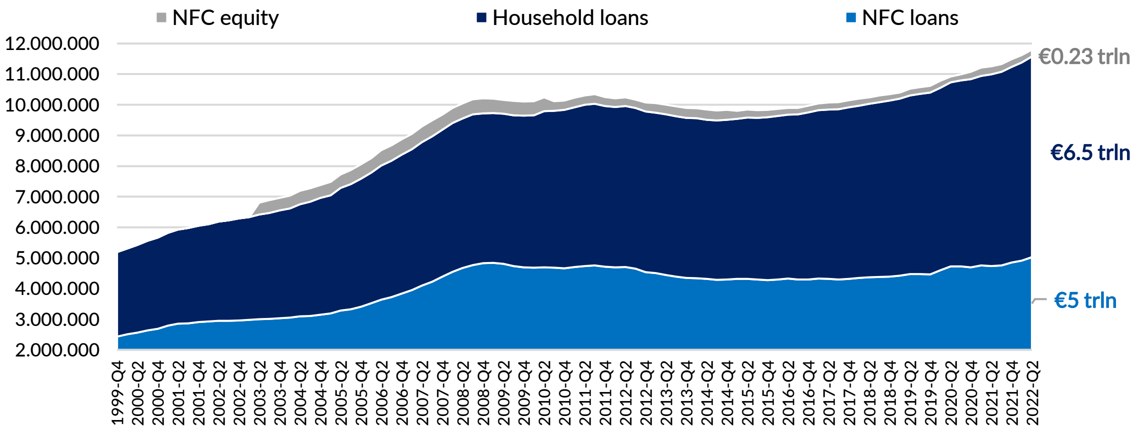
Region	Number	Capital raised - listed (€ bln)				Capital raised (IPOs) € bln			
		Total (€ bln)		New shares		Total		New shares	
	no.	no.	of total	no.	of total	value	of total	value	of total
EU	16	119.8	17%	112	26%	49.9	12%	35.23	19%
US	3	89	13%	n/a	n/a	182.9	43%	n/a	n/a
WW	90	699		428		421.9		184	

Source: own composition based on data from the World Federation of Exchanges; WW stands for worldwide; EUR/USD converted at 31/12/2021 rate provided by ECB

In terms of the market architecture, there were 431 authorised trading facilities in the EU (RM – 128, MTF – 222, OTF – 81) in 2019, with 40% of them concentrated in the UK, according to ESMA registers. By the end of 2021, there are 494 authorised trading facilities:

- regulated markets – 129;
- MTFs – 147;
- OTFs – 29;
- SIs – 189.

Figure 5-1. Eurozone bank assets

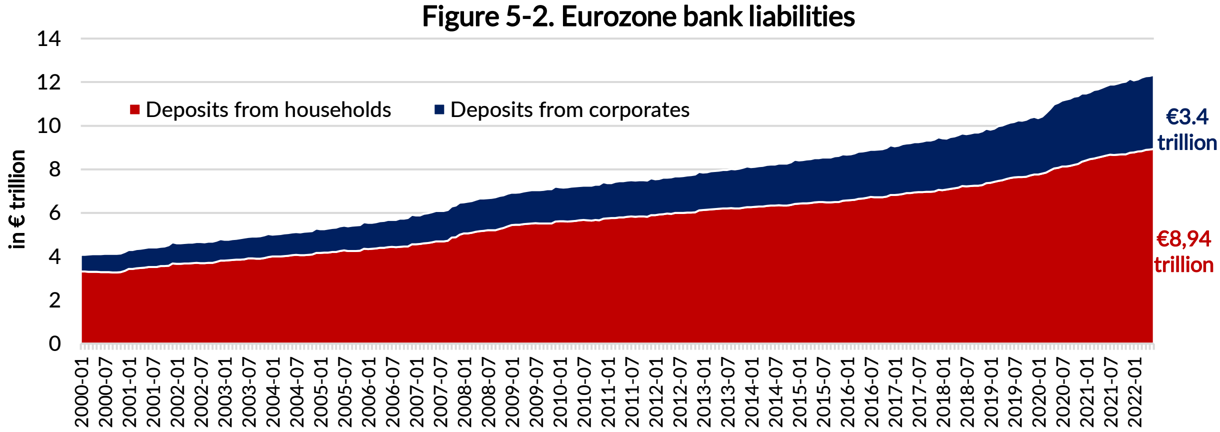


Source: own composition based on ECB data

Additional explanations: EU stock markets are currently used only by the large capitalisation companies. According to a 2019 study by the European Commission, only 0.16% of European companies were listed on stock exchanges, but their assets make up for 20.5% of all assets, being on average 150 times larger than non-listed companies.[73]

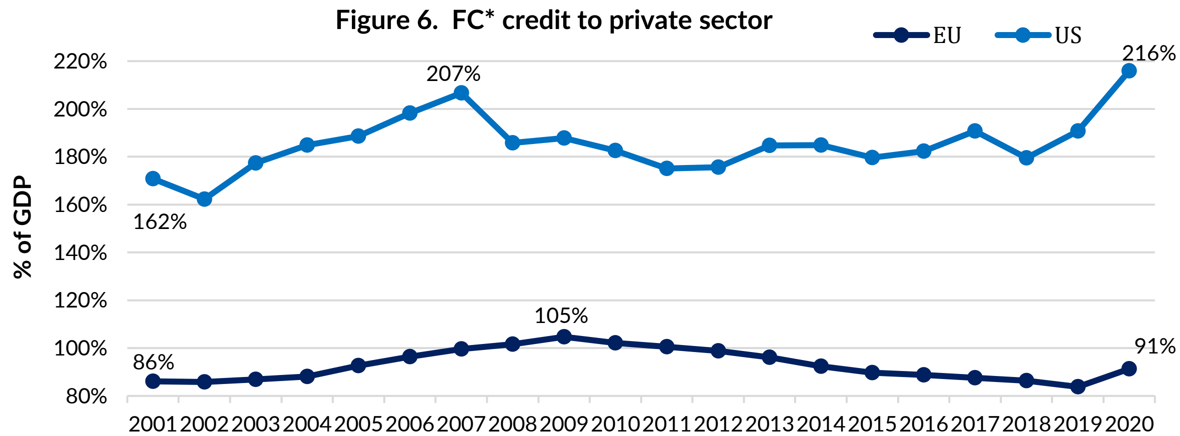
Some stakeholders argue that banks are sufficiently resilient to support household and corporate financing in the EU and/or Eurozone; by looking at the assets (what banks fund the economy) versus the liabilities (what deposits banks attract), we will see that the funding capacity is not that strong. In the Eurozone, banks had €11.5 trillion in loans to households and non-financial corporations, yet just a small fraction (€230 billion) worth of ownership rights in non-financial corporations.

[73] Commission Staff Working Document on Foreign Direct Investment in the EU: Following-up on the Commission Communication "Welcoming Foreign Direct Investment while Protecting Essential Interests" of 13 September 2017, Brussels, 13.3.2019 SWD(2019) 108 final, https://trade.ec.europa.eu/doclib/docs/2019/march/tradoc_157724.pdf.



Source: Own composition based on ECB data

Additional explanations: In terms of liabilities, banks attracted €12.34 trillion from households and the entire corporate sector (thus, including financial and non-financial firms). Given that the funding capacity of a monetary financial institution (banks) is judged by how many deposits it attracts, defining how many loans it can offer, it seems that the liabilities of Eurozone banks are just slightly higher than their assets.

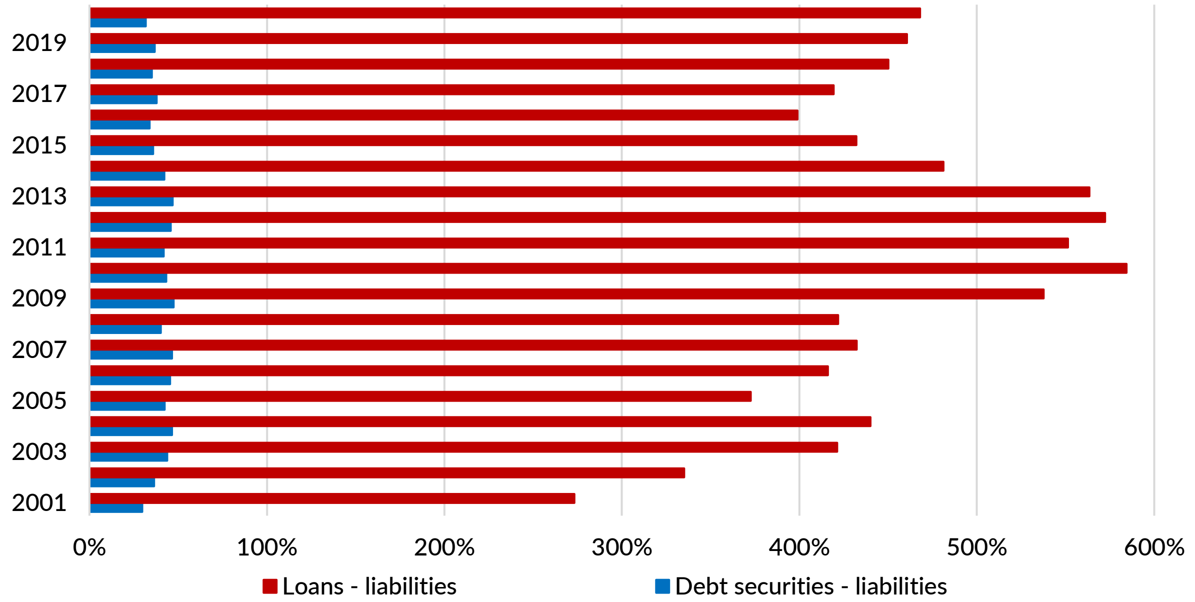


*Source: Eurostat; AFME; World Bank database; own composition; *FC = financial corporations*

Additional explanation: Figure 6 shows how much financial corporations (including banks, asset managers, insurers, pension funds) lend ("*through loans, purchases of nonequity securities, and trade credits and other accounts receivable*"[74]) to the private sector as a percentage (relative) to the domestic GDP. Considering that the US annual output is only 14.75% higher than that of the EU, there is much more potential for funding to European businesses.

[74] World Bank Metadata – explanation of the dataset: https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS.

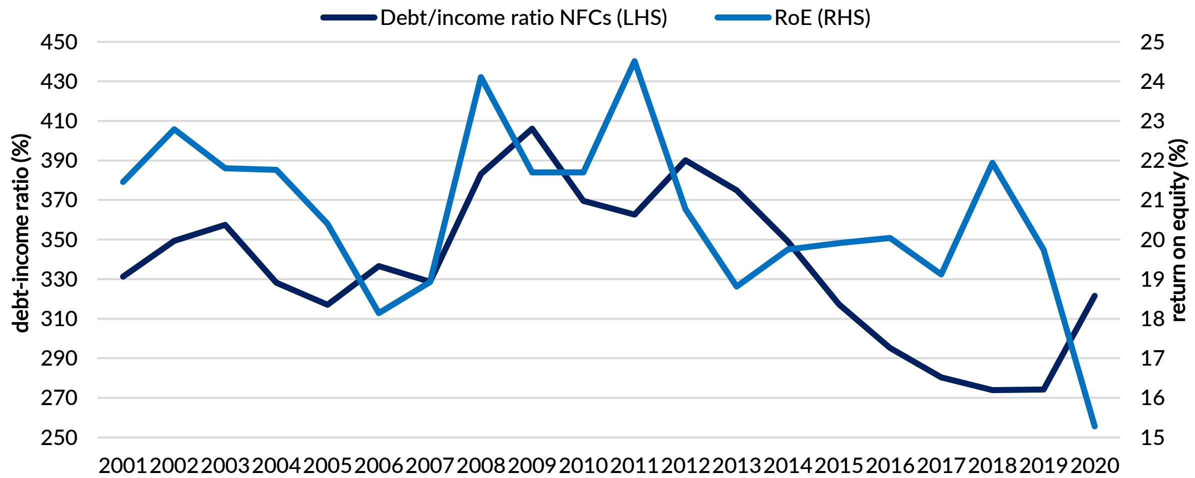
Figure 7. NFC debt - EU-to-US ratio (€)



Source: Eurostat; Federal Reserve Economic Data; own computation

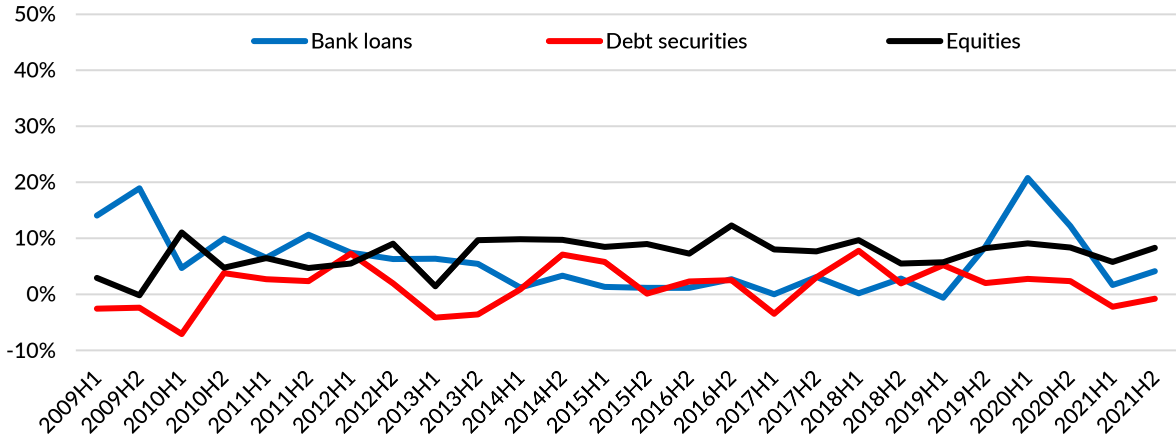
Additional explanations: Figure 7 shows the significant differences in capital vs bank-based funding for NFCs in the EU and US. The red bars in Figure 7 show the EU-to-US ratio of loans as liabilities on NFCs' financial balance sheet. On average, the EU private sector relies 4.5 times more on loans from banking institutions than the US economy does. More details on the sources of funding for EU businesses (SMEs) will be presented under KPI 2 below.

Figure 8. Treasury operations of Eurozone NFCs



Source: Eurostat, own composition

Figure 9. Financing needs for SMEs



Source for Figures 9-12: European Central Bank SAFE Questionnaires

Additional explanations: The ECB SAFE exercise also surveys three other important questions for SMEs: how many of them used which type (out of four main) of financing (Figure 11); the increase/decrease in the financing needs of SMEs by type of instrument (Figure 9) and in the availability by type of instrument (Figure 10).

However, in terms of net changes (increases, decreases) in the *financing needs of SMEs* (Figure 9), equities average 8% since 2009, followed by bank loans (6%) and debt securities (1%). This means that, over the 13-year period covered, the financing needs of SMEs regarding these three channels have remained virtually unchanged.

Looking at the perceived availability of funding by SMEs, it seems that the general 13-year tendency is scepticism, to say the least: SMEs answers' bi-annually are generally negative, indicating that their perceived availability of external funding is almost continuously decreasing, with occasional increases (2017 or 2019).

The four graphs and charts presented above paint a grim picture on the past and current situation of capital market-based funding for SMEs in the Eurozone: a small share of these firms resort to debt or equity issuance, most of them need more equity funding than what is available and less debt funding than what is available; their needs have virtually remained unchanged in the past 13 years, whereas the availability is continuously decreasing. In other words, SMEs are hardly part of the securities (even banking) markets' world.

According to a report by the European Commission,[75] foreign investors held 35% of European companies' assets in 2018, the majority of which were in non-listed companies. The report pointed out that "*non-EU controlled companies are generally bigger than the EU-controlled ones*", taking into consideration the total number of companies (listed and not-listed on stock exchanges) and the share of which are owned by foreign investors (by how weighting of assets from the total).

More recently, a report from the European Commission, the total value of foreign direct investment flows into the EU27 decreased five times (-80%) between 2015 and 2020, justified by the fact that the "*COVID-19 pandemic produced even harsher effects when compared to the world average*".[76] According to

[75] Commission Staff Working Document on Foreign Direct Investment in the EU: Following-up on the Commission Communication "Welcoming Foreign Direct Investment while Protecting Essential Interests" of 13 September 2017, Brussels, 13.3.2019 SWD(2019) 108 final, https://trade.ec.europa.eu/doclib/docs/2019/march/tradoc_157724.pdf, page 8.

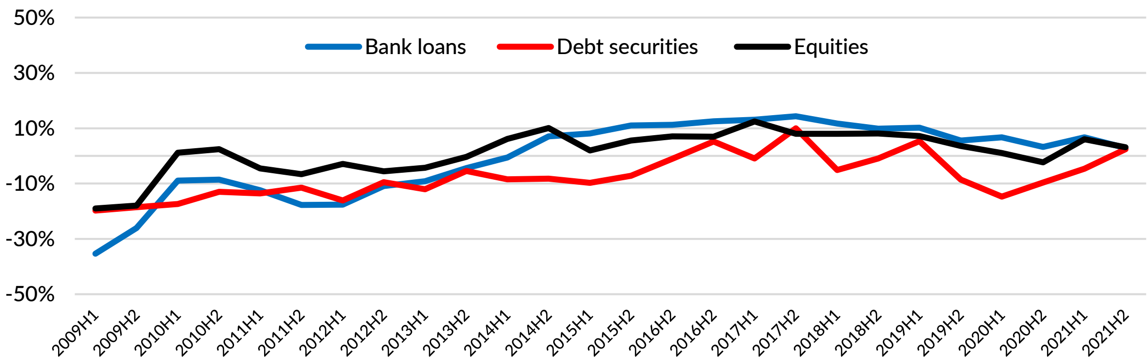
[76] European Commission, *Report from the Commission to the European Parliament and the Council: First Annual Report on the Screening of Foreign Direct Investments into the Union* ({SWD(2021) 334 final) COM(2021) 714 final, p.4, available at: https://trade.ec.europa.eu/doclib/docs/2021/november/tradoc_159935.pdf.

data from the World Bank, foreign direct investments in the EU recorded their highest value of the last 10 years (2011-2020) in 2015, worth 5.7% of the EU GDP, after which foreign investments dropped to a 2.1% low in 2020.

It is equally important to analyse the treasury operations of non-financial corporations to understand the need for more capital-based financing. Corporates' capital should come primarily from shareholders, creating a sound and resilient equity basis on which short- or long-term funds through debt instruments can support asset creation, business expansion, payments, research and innovation. However, if corporates do not have a strong physical asset basis, and the shareholders' equity is small, it means these can either not evolve or will evolve highly leveraged. If a company borrows more than what its equity is worth, it becomes leveraged; high levels of leverage increase the cost of financing through higher default premia and makes the borrower more sensitive to systemic shocks.

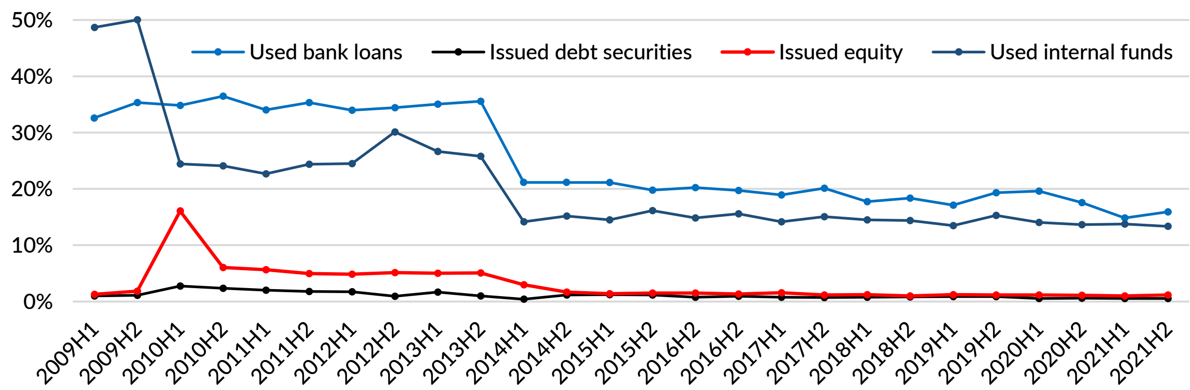
In the Eurozone, the debt-to-income ratio of non-financial corporations decreased significantly from the 2012 value of 390% to 274% in 2019; however, the global health pandemic and activity restrictions brought back this indicator to a level higher than that observed in 2015. Looking at profitability, the situation deteriorated dramatically since 2018 when the ratio of return on equity (profits divided by the shareholders' equity) decreased from 21.94% to 15.28% by the end of 2020.

Figure 10. Financing availability for SMEs



Source for Figures 9-12: European Central Bank SAFE Questionnaires

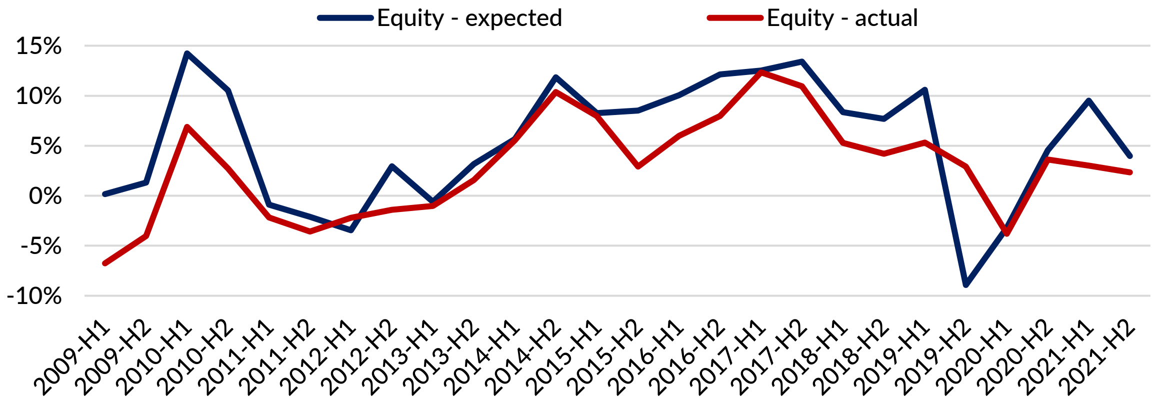
Figure 11. Types of financing used by SMEs



Source: ECB SAFE, own composition

The situation in terms of financing channels used by SMEs has not changed since our 2019 report, neither since 2015: only 1% of surveyed SMEs use equity financing, as well as debt securities. In contrast, SMEs primarily use banks loans for their financing needs (16% at the end 2021, on average 25%) and internal funds (retained earnings, 13% at the end of 2021, 21% on average).

Figure 12. SME equity financing availability - expectations vs reality

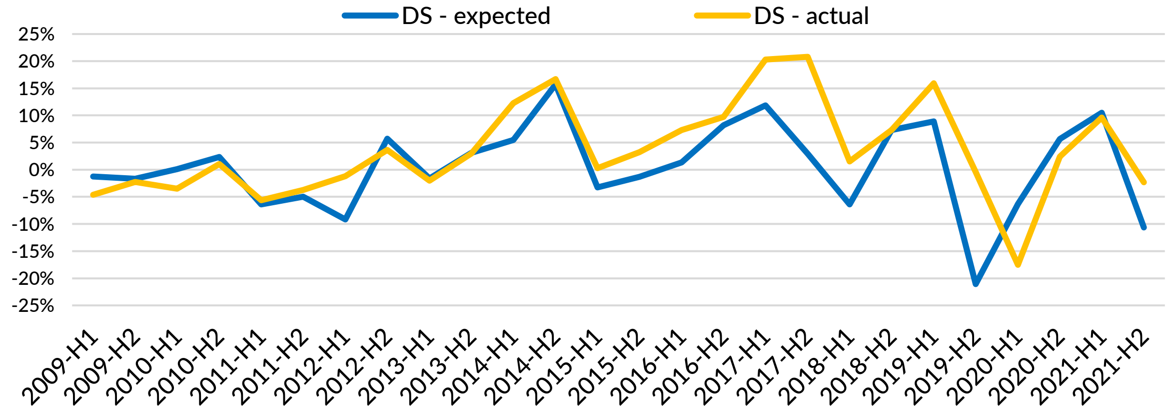


Source: own composition based on ECB SAFE data

Additional explanations: Figures 12 (above) and 13 (below) exhibit the survey responses of SMEs concerning the perceived financing availability on capital markets: the survey sought to understand what SMEs expected in terms of different types of funding in contrast to what was offered. We focus on funding through equity and debt instrument issuance.

The ECB SAFE survey shows two different pictures depending on the instrument: generally, the equity financing expectations of SMEs are higher than what is available to them (with the exception of the second half of 2020), whereas debt funding expectations are generally lower than what is available.

Figure 13. SME debt financing availabilty - expectations vs reality



Source: own composition based on ECB SAFE data

Some reasons for the underdevelopment of EU capital markets (compared to the US) may be their fragmentation, opaqueness, and complexity. Fragmentation in the EU is different from fragmentation in the US. While the US markets also have multiple competing trading venues, they do not have to cope with different legal regimes and tax rules at the same time. Significant fragmentation of markets and the persistent lack of comprehensive trade data across the EU for non-professional investors are holding back capital market investments in Europe in general, as pointed out by a study conducted by the Association of Financial Markets in Europe (AFME) and the Boston Consulting Group (BCG).[77] Recently (December 2022), the European Commission put forward a proposal to review the main EU legal instrument on market structures (Markets in Financial Instruments Regulation) to lay down the

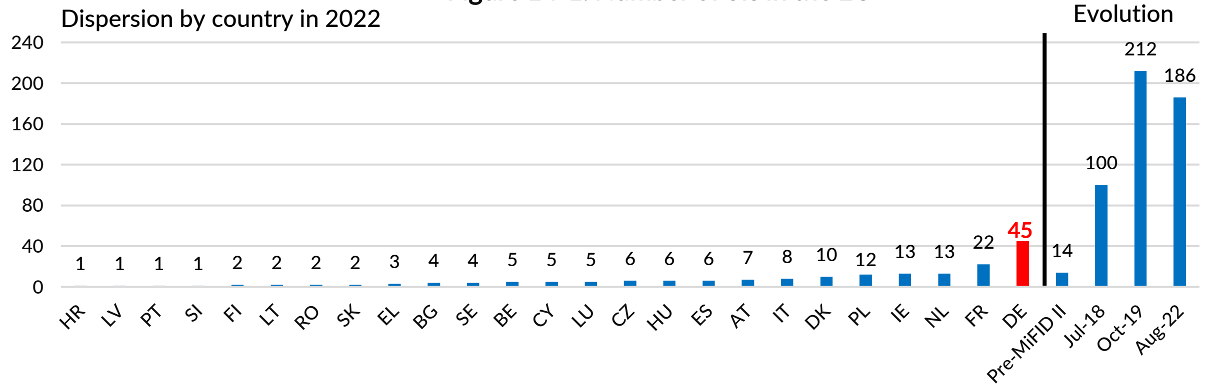
[77] *"65% of the investors surveyed, who represent around €9tn of assets under management, identified market fragmentation, i.e., lack of information and understanding of differences across markets, as a factor which is holding back investments."* ('Bridging the growth gap: investor views on European and US capital markets and how they drive investment and economic growth', March 2015)

framework for a consolidated tape.[78]

This situation is particularly unfavourable for individual investors: they have no direct access to most market "venues" other than the regulated markets. These are the only remaining, easily accessible and transparent markets for individual investors. Multilateral Trading Facilities (MTFs), systematic internalisers (SIs) and over the counter (OTC) pools are mostly unknown to them. As any other investor, retail savers must be able to assess risk and profitability in order to directly invest in capital markets on securities exchanges. Since half of equity trading takes place in opaque or non-transparent venues (OTC or *dark pools*), investors suffer because the price formation mechanism is affected, which in turn impacts confidence and trust in financial markets. Moreover, we suspect that "retail" trade orders are routed towards systematic internalisers against payments for order flows by investment firms.

By the end of 2019, 212 systematic internalisers were registered in the EU, the majority of which were in the UK. Whilst Brexit meant the exit of 64 UK-domiciled systematic internalisers (2019 data), their number further increased in the EU27 from 148 to 186 by August 2022. According to a FESE study, in 2019 merely 42.4% of equity trading took place on "lit markets" in Europe.[79]

Figure 14-1. Number of SIs in the EU



Source: own composition based on ESMA registers data; pre-2020 data includes the UK

Figure 11-2 analyses the evolution of registrations and de-registrations of systematic internalisers in the EU, which provides a good starting point for analysis on which jurisdictions are most reliant on internalisation and opaque (dark) trading. Germany is, by a large difference, the new "hub" for internalisers, with 45 SIs registered in August 2022 – according to ESMA data – followed by France (22), the Netherlands and Ireland (13 each). In only four cases (Italy, Portugal, Sweden, and Austria) there have been de-registrations. It is also interesting to note the growing trend: at the end of 2019, 19 jurisdictions had SIs, whereas at the time of writing all EU Member States have at least one.

Many internalisers turn a profit by having large volumes of orders redirected for execution (by brokers) on their venues: named *payment for order flows*, this business model enables investment firms to earn the difference in spreads, but in most cases, it can lead to lower execution prices for customers.

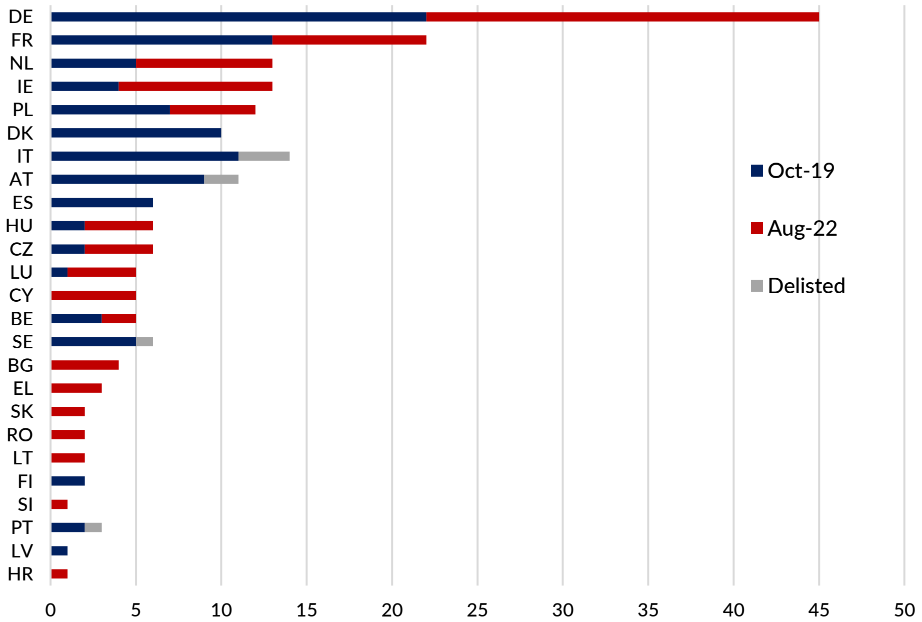
In our view, there are several disadvantages from executing "retail" orders on opaque venues that pay for order flow:

- PFOF can lead to worse execution prices;
- most financial supervisors warn about and strongly doubt the practice's compliance with the law;

[78] See procedure file 2021/0385(COD) – Amendments to the Markets in Financial Instruments Regulation (MiFIR) – available here: https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2021/0385(COD)&l=en.
[79] Federation of European Stock Exchanges (FESE), Blueprint: Capital Markets Union by 2024 – A Vision for Europe" (2019) p. 32, https://fese.eu/blog/fese-blueprint-capital-markets-union-by-2024-a-vision-for-europe/.

- several brokers have previously received hefty fines for PFOF practices;
- PFOF can create a conflict of interest between brokers and clients;
- PFOF can hamper competition, price formation, and transparent trading, ultimately affecting issuers and investors.[80]

Figure 14-2. Evolution of SI registrations in the EU



Source: own composition based on ESMA registers data; pre-2020 data includes the UK

The proliferation of SIs and shift from "lit" to "dark" trading was foreseen by academics and go against the very purpose of both the CMU Action Plan and MiFID II: to increase market transparency and decrease trading outside of regulated venues.

In addition, brokerage fees for individual investors have not been reduced significantly and remain much higher than in the US. For example, the European Commission reported[81] that "*US online brokers are cheaper than their EU counterparts for domestic trades and in most cases also cheaper for cross-border trades*" in pre-MiFID I times. According to data from OXERA, commission rates charged by retail brokers to retail investors in major financial centres were still 19bp in 2009, and 30bp in other financial centres in 2009.[82] BETTER FINANCE's member associations have not experienced any significant reduction of brokerage fees for retail investors in the EU versus the lower US ones.

Jump to KPI1

[80] Taken from BETTER FINANCE's Position Paper on *Payments for "Retail" Order Flows* (2022) BETTER FINANCE, available at: https://betterfinance.eu/publication/last-chance-for-member-states-to-support-eu-citizens-as-investors-and-finally-ban-payment-for-order-flow-pfof/.

[81] Cost of Execution of retail equity trades in Europe in 2005
http://ec.europa.eu/internal_market/financial-markets/docs/clearing/draft/annex_3_en.pdf

[82] *"Monitoring prices, costs and volumes of trading and post-trading services".* Report prepared for the European Commission, DG Internal Market and Services. OXERA, May 2011
http://ec.europa.eu/internal_market/financial-markets/docs/clearing/2011_oxera_study_en.pdf

KPI 2 – SME participation in capital markets
Jump back to KPI2.

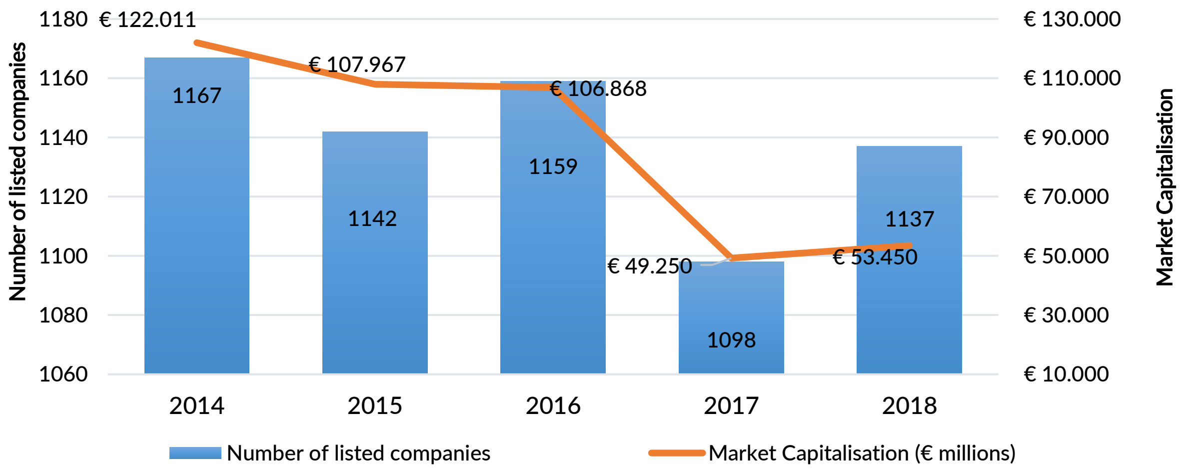
Table 14. Sources of financing for EU SMEs and Large Companies (2020)

	Micro %	Small %	Medium %	Large %
Internal funds or retained earnings	72%	66%	63%	59%
External finance - banks	17%	21%	22%	25%
External finance - bonds and equity	0.3%	0.2%	0.4%	0.8%
Other	10%	12%	15%	15%

Source: EIB Investment Survey 2021

Additional explanations: In 2015 BETTER FINANCE proposed to rehabilitate employee share ownership[83] (see more under KPI 4) as the single most powerful action to reach the CMU goals. We argued at the time that, even if it were to just reach the level it enjoys in the US, employee share ownership (ESO) would be multiplied by 6 in the EU – adding €2 trillion in equity market capitalization – and even by much more as far as SMEs are concerned.

Figure 15. SME Markets in the EU



Source: FESE Statistical Factsheet; own composition

Additional explanations: The CMU Action Plan listed "*support SMEs seeking finance*"[84] as one of the key actions laying the foundation of the CMU. The EIB's Investment Survey of 2020 found that 98% of EU companies rely for at least 65% of their funding on internal funds or retained earnings, and the external sources are overwhelmingly banking products (23% on average).[85] With regard to raising funds through equity issuance, only about 0.18% of EU SME financing derives from new share issuance. The ECB's SAFE study[86] shows grim results as well: from the second half of 2013, SME respondents indicated that they use less and less new financing (internal or financial markets based), although the need for financing through equity instruments, for example, has increased. Even though the availability of funding through banks and equity issuance has significantly increased over the same period (from 4 to 14%), it is still at a very low level.

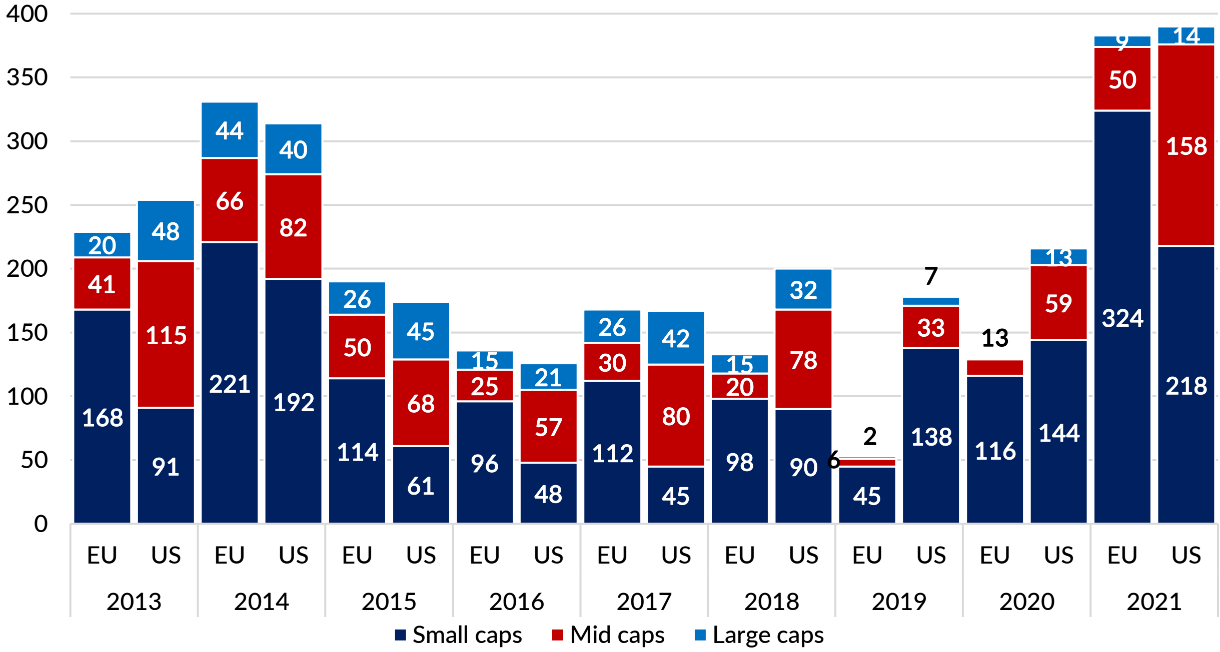
[83] BETTER FINANCE CMU Briefing Paper, action proposal no.2, page 22 http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/CMU_Briefing_Paper_-_For_Print.pdf
[84] CMU Action Plan 2015 (n 24), p. 9.
[85] European Investment Fund, Investment Survey 2018 - http://data.eib.org/eibis/index.
[86] European Central Bank, Survey on the Access to Finance of Enterprises 2018/2019, https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html.

Facing difficulties to obtain finance and high compliance costs, coupled with a drop in risk equity research,[87] caused the number of publicly listed SMEs companies to fluctuate and, overall, decrease from 2014 (1180) to 2018 (1137), with the market capitalization of their shares dropping dramatically from €122.1 billion to €53.45 billion in 2018 (-56%).

The EESC opinion on the development of SME growth markets points out that the choice of SMEs for the costlier bank credit is a "*cultural characteristic*" distinguishing the EU from the US market, coupled with the regulatory compliance costs, different tax regimes, "*lack of an equity culture and fragmented insolvency regimes*".[88]

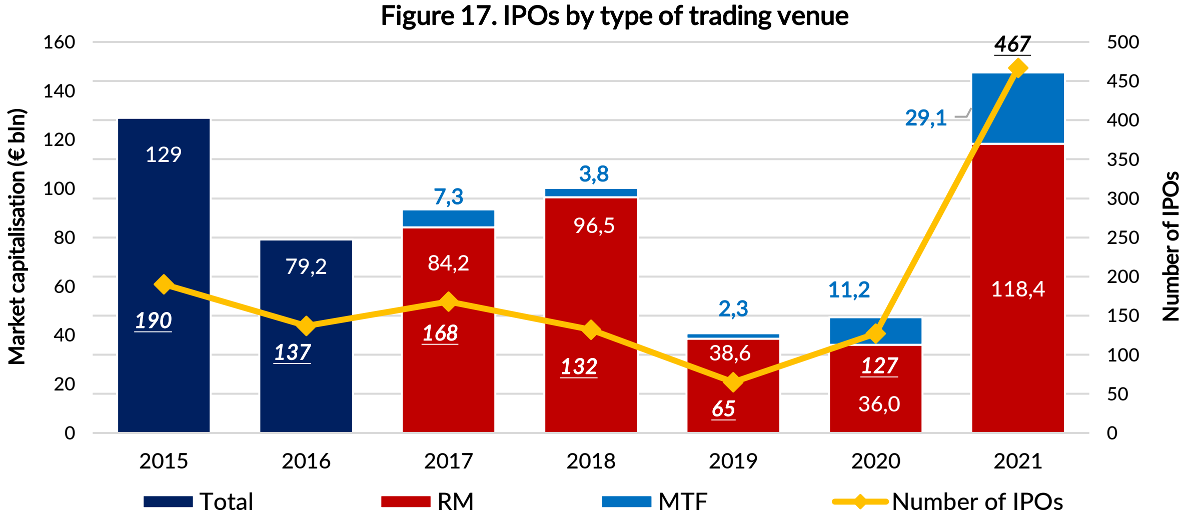
As regards the relevance of external funding sources, the SAFE survey results concur with the results of EIB's Investment Survey of 2021: the majority of respondents draw on their internal resources or retained earnings for funding, while external sources of finance are of minor significance[89] and are heavily outweighed in favour of credit lines and bank loans. Equity funding is a relevant source of capital only for 12% of respondents, while debt securities only for 13%. In terms of newly listed companies or newly issued shares, 2014 recorded a peak with a total of 331 companies listed, out of which the majority (68%) were small capitalization enterprises. In the EU, IPOs have been "*moderate and rather volatile over time and barely exist for SMEs*".[90] Public listing, for the purpose of raising capital through equity or corporate bond issuance, may prove very costly and not profitable for SMEs, considering their income volatility[91] and the fact that a high number of SMEs (approximately 200,000) go bankrupt annually.[92]

Figure 16. Number of IPOs per year



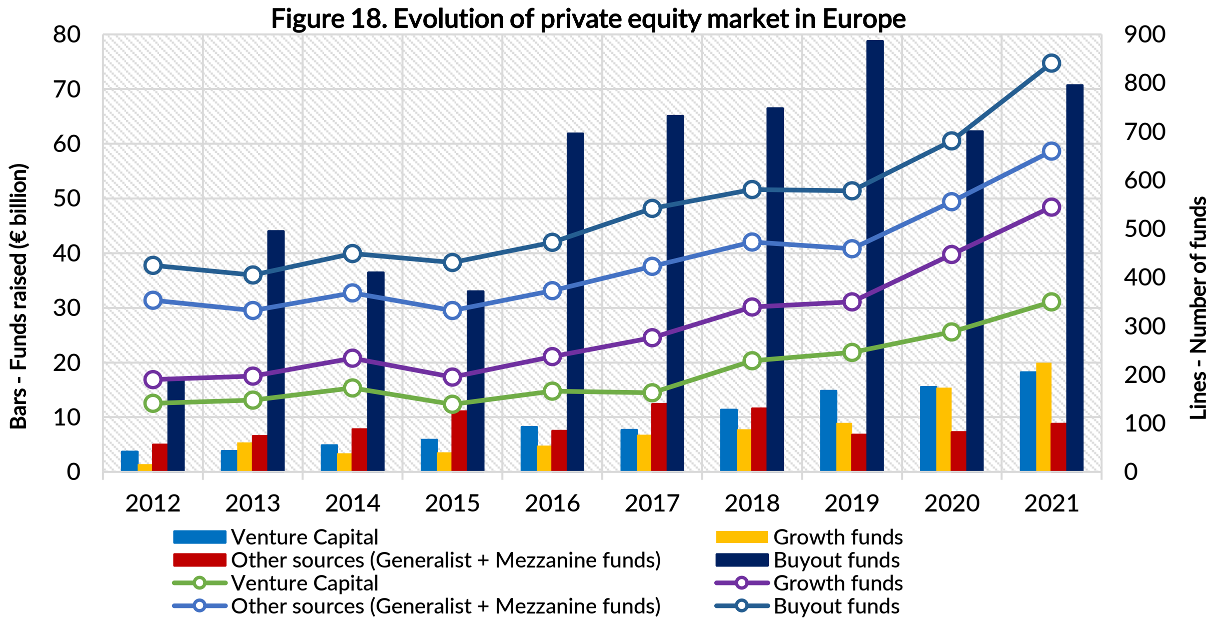
Source: Own composition based on WFE data (2022)

[87] See CFA Institute, *MiFID II – A New Paradigm for Investment Research: Investor Perspectives on Research Costs and Procurement* (2017) https://www.cfainstitute.org/-/media/documents/support/advocacy/mifid_ii_new-paradigm-for-research-report.ashx; see also Elizabeth Pfeuti, 'MiFID II Research Rules "Hitting Sector Coverage and Quality"' (18 February 2019, IPE.com), last accessed 3 November 2019, available at https://www.cfainstitute.org/-/media/documents/support/advocacy/mifid_ii_new-paradigm-for-research-report.ashx.
[88] EESC Opinion (n 43), p. 6.
[89] More than 50% respondents answered "*no, this source is not relevant to my enterprise*".
[90] Apostolos Thomadakis, 'Developing EU Capital Markets for SMEs: Mission Impossible?' 46 (4 September 2017) European Capital Markets Institute Commentary, p. 2.
[91] Ibid.
[92] EESC Opinion (n 43), p. 5.



Source: Own composition based on WFE data

The IPOs taking place on RMs totalled €118 billion (1st trading day) in 2021. The size of the EU public equity market has grown over the past 9 years but in favour of institutional financial and corporate investors (domestic and foreign). The smaller EU businesses have not profited from the pooling of capital into the EU economy.



Source: Invest Europe – European Private Equity Activity 2016-2021

Table 19. Domicile of private equity investors in Europe

	2015	2016	2017	2018	2019	2020
Europe	68%	55%	57%	54%	58%	68%
West	59%	49%	44%	38%	41%	45%
Nordics	8%	5%	7%	5%	6%	7%
CEE	0%	0%	0%	1%	8%	10%
Unclassified	5%	10%	6%	9%	3%	7%
Worldwide	32%	45%	43%	46%	42%	32%
North America	20%	30%	26%	26%	26%	19%
Asia Pacific	12%	14%	15%	15%	15%	12%
Rest of world	1%	1%	2%	6%	1%	1%

Source: Invest Europe – Private Equity Activity reports (2017-2021)

If capital markets (regulated trading facilities and MTFs) are not attractive enough for SMEs, an alternative external source of funding can be found in business angels – private equity investments – where risk capital is provided. According to the annual reports of Invest Europe,[93] the value of funds raised in European private equity trading (from governments, sovereign wealth funds, private investors, individuals, pension funds and insurers) increased to €117.7 billion in 2021, compared to the total €53.6 billion of 2015. However, these figures are insignificant compared to UCITS funds invested in listed equity, amounting to €6,147 billion at the end of 2021.[94] In addition, scholars noted that the venture capital market (which is just a part of the private equity market) faces a "lack of private-sector investors": between 2007 and 2015, the private-public shares of funds raised shifted, with Government agencies accounting for 31% of venture funding and pension funds, insurers and banks falling to just 14%.

Moreover, with regards to the geographic source of funding, the share of foreign investors almost balances that of domestic ones in the EU: apparent from the table above, 32% of funds raised in risk capital originates from North America, Asia-Pacific and the rest of the world, while 68% comes from European investors, where 66% (or 45% of the total) is from Western European countries with a higher and more developed equity culture than East-European investors and Nordics.

Jump back to KPI2.

KPI 3 – Retail investments in capital markets

Jump back to KPI3.

Compared with our peers (US households), EU investments in funds, shares and bonds are three times smaller relative to GDP than in the US. European citizens' deposits roughly round up to the same ratio to GDP as in the US (64% in the US and 67% in the EU27). The huge difference in financial wealth stems from investing, not saving in real estate and consumer durables as most Europeans do. On a 66-year average (1952-2018), 33% of US citizens' savings were directed to non-financial assets, the rest being invested in directly held corporate equities (17%), DB pension entitlements (20%)[95] and bank deposits (18%). Thus, two important aspects are observable from the outset: compared to the EU27 (28%) and the Eurozone (33%) average, US households hold only a minor part of their savings in bank deposits, but directly hold twice as much publicly listed equity as EU households.

EU27 households save almost the same share of their disposable income as US households, but store much more in non-financial assets (real estate, commodities, other goods) than US savers. This situation has been constant since 2003. The propensity of individuals to invest in non-financial assets may stem from the uncertainty, complexity and opacity of financial products. While the institutional sector (in particular financial corporations) is better placed to assess risk and, in general, has a greater loss tolerance, retail savers are deemed to be more averse to the volatility of financial markets, which might explain the choice for illiquid assets (non-financial).

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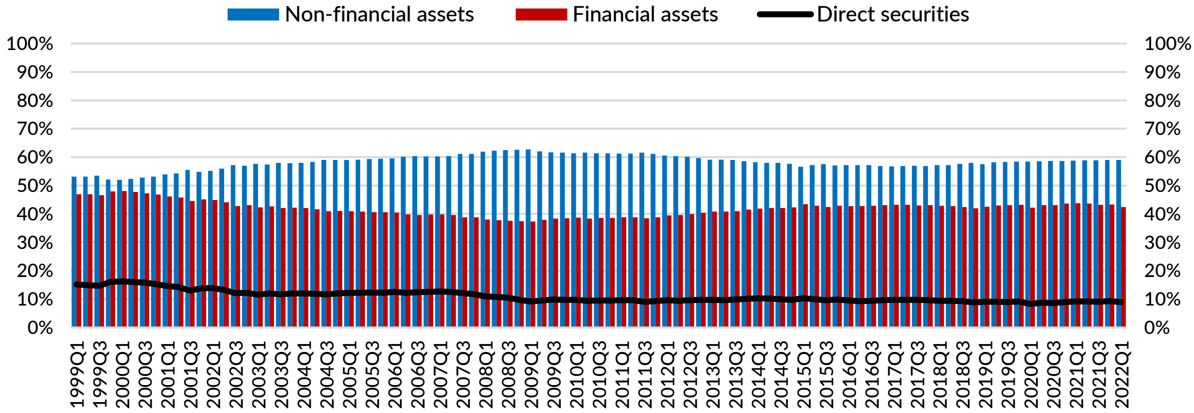
[93] Invest Europe, European Private Equity Activity 2017-2021: Statistics on Fundraising, Investments and Divestments; accessible here https://www.investeurope.eu/research/publications/?keyword=European%20Private%20Equity%20Activity%20Report%20and%20Data%202018#search-filter-container.

[94] Data source from the EFAMA Quarterly Statistical Release Q4 2021, https://www.efama.org/statistics/SitePages/European%20Quarterly%20Statistical%20Release.aspx.

[95] Data sourced from the US Federal Reserve (https://www.federalreserve.gov/releases/z1/current/).

Figure 20. Eurozone household savings



Source: Eurostat, ECB, own composition

Additional explanations: The 2015 CMU Action Plan recognized that a significant part of EU households' savings – held in bank deposits - could be better reallocated so that the entire economy would benefit, while "*the European Commission's Capital Markets Union (CMU) Mid-term Review (EC, 2017) acknowledged that the engagement of retail investors in capital markets remains very low*".[96] If the EU27 households reduced their preference for bank deposits to the same level as in the UK, it would free up nearly €2 trillion that could be invested in the EU economy,[97] particularly in risk capital. The outlook for banking products does not look too profitable either for retail investors. The interest rates for Eurozone household bank deposits decreased to 0.21% for deposits with maturities lower or equal to 2 years (short-term) and 0.7% for those term deposits with maturities longer than 2 years (long-term). Looking at average inflation figures, until the second half of 2013 depositors could earn an extra real net income on their savings. Afterwards, particularly in 2022, losing money in real net terms is guaranteed.

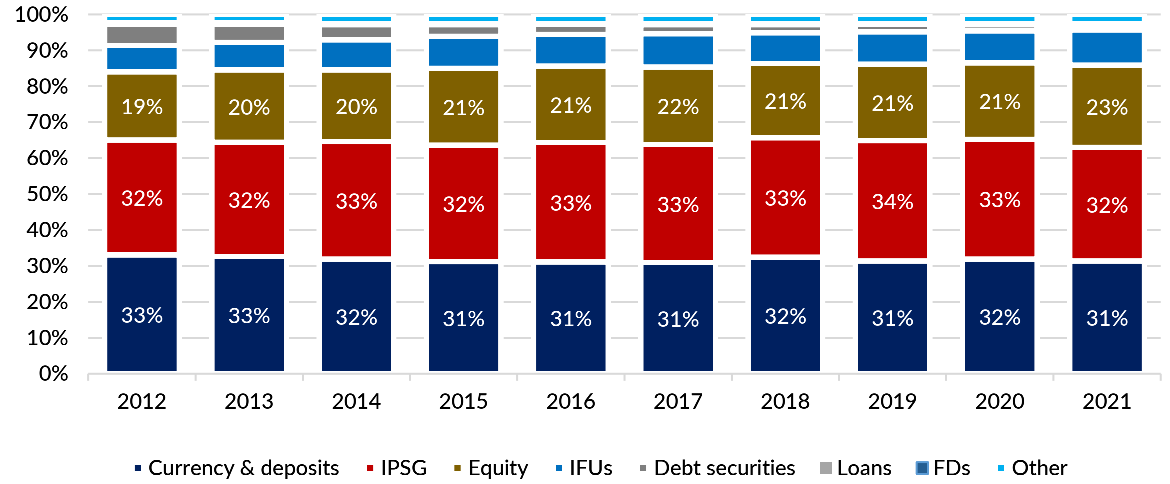
Table 21. EU27 households' financial savings

	2015		2021	
	€ bln	% of total	€ bln	% of total
Currency & deposits	7,947.9	31%	10,771.5	31%
Debt securities	832.3	3%	505.6	1%
Loans	83.7	0.33%	107.4	0.31%
Equity & investment funds	7,727.9	30%	11,218.5	33%
Equity	*5,461.5*	*21%*	*7,861.7*	*23%*
Listed shares	*1,056*	*4%*	*1,742.4*	*5%*
Investment funds	*2,266.4*	*9%*	*3,356.9*	*10%*
Insurances, pensions, standardised guarantees	8,271.2	32%	10,863.5	32%
Derivatives & options	3.9	0%	4.8	0%
Other	642.9485	3%	863.5234	3%
Total	25,509.9	-	34,334.8	-

Source: own composition based on Eurostat data

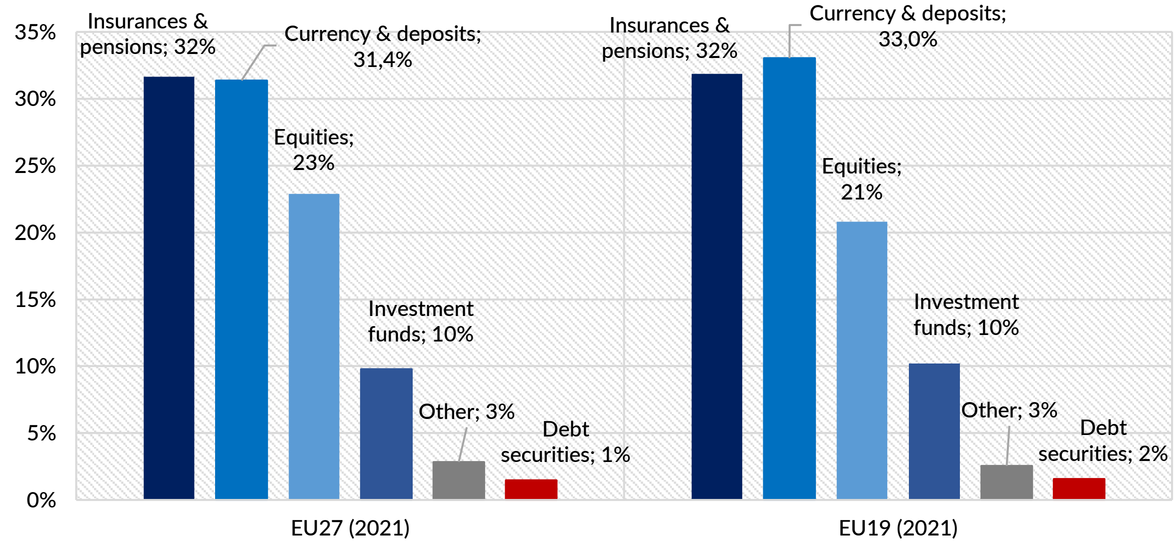
[96] Apostolos Thomadakis, 'The European ETF Market: What can be Done Better?' 52 (24 April 2018) European Capital Markets Institute Commentary, 4.
[97] New Financial "A decade of change in European Capital Markets", page 11.

Figure 22. Evolution of EU27 households' financial savings



Source: Own composition based on Eurostat data; IPSG = insurances, pensions, and standardised guarantees; IFUs = investment fund units; FD = financial derivatives

Figure 23. EU27-EU19 household financial savings



Source: Own composition based on Eurostat data

Additional explanations: The financial balance sheet composition is very similar between the EU and Eurozone. Insurances and pensions take the largest share of household financial investments, followed by bank products and equities. In total, both EU and Eurozone households hold three quarters of their financial savings with packaged products (investment fund units, insurances, pensions, banking products), showing a disconnect between direct capital market investments and the European household sector. In terms of CMU objectives, we see no change of the situation compared to seven years ago.

Looking at the *equity* figure can be misleading as it comprises households' equity in their own businesses, used for work/professional purposes. As the following two graphs show, listed equities (capital market investments) are much lower, and EU households are among the minority holders of Eurozone non-financial companies.

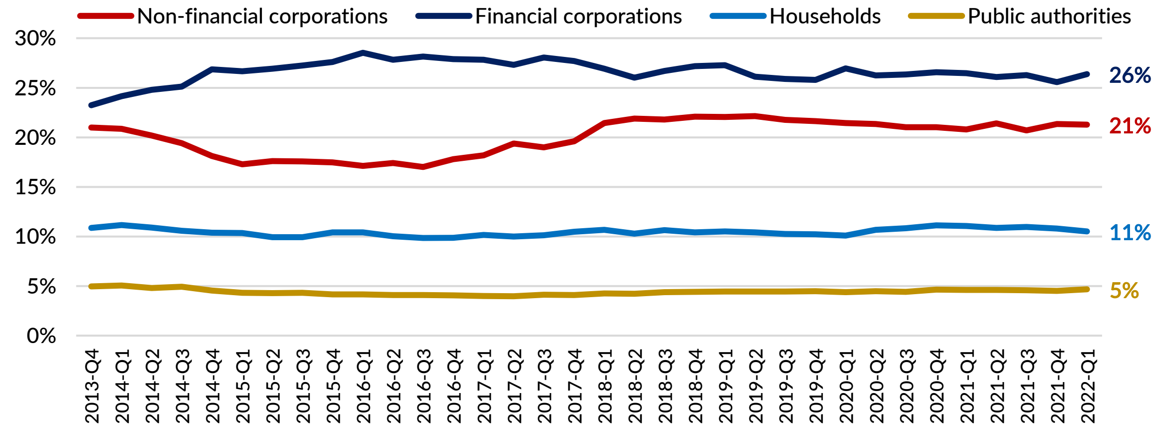
Table 24. Type of equity holdings as % of total equity (F4)				
2021 | EU27	NFCs	FCs	Gov	HH
Total	25%	49%	6%	20%
Listed shares	7%	73%	5%	15%
Unlisted shares	35%	46%	3%	15%
Other	25%	17%	17%	41%
2021 | Eurozone	NFCs	FCs	Gov	HH
Total	27%	50%	6%	17%
Listed shares	8%	74%	5%	14%
Unlisted shares	36%	48%	3%	13%
Other	29%	15%	19%	37%

Source: own composition based on Eurostat data; NFC = non-financial corporation; FC = financial corporation; Gov = public authorities and general Government; HH = households

Additional explanations: Table 24 breaks down the total equity ownership by institutional sector to show a cross-section of what type of shares are being invested in. Non-financial corporations' equity is mostly represented in their own equity issuance and underlying companies. In contrast, EU27 households' 9% equity share (of the total financial savings) is divided between listed shares (22% of total equity / 2% of total savings), followed by unlisted shares (private equity, 38% / 3.4%) and mostly "other equity" (40% / 4.6%).[98]

The findings from Table 24 can be coupled with the ownership structure of non-financial corporations in the Eurozone and EU: out of the total equity issued by this sector, it is mostly financial firms (investment and pension funds, insurers, and banks) that hold the largest share (26%), followed by households (11%) and public authorities (5%) as external shareholders.

Figure 25. Evolution of Eurozone NFC equity ownership



Source: own composition based on ECB data

Additional explanations: The findings of KPI1 (*bank vs capital markets funding*), KPI2 (*SME financing*) and the two previous figures must be interpreted together: the total EU market capitalisation is lower than the EU GDP, whilst non-financial corporations rely heavily on debt, followed by internal funds, as financing channels. From the outset, this indicates that financing through share issuance on the market is poorly developed. Second, the second largest shareholder of EU non-financial corporations are non-financial corporations, closely behind financial corporations, revealing a weak shareholder base. Last, the number and volume of IPOs is decreasing, and private equity markets are fairly small compared to the total equity value of non-financial corporations in the EU.

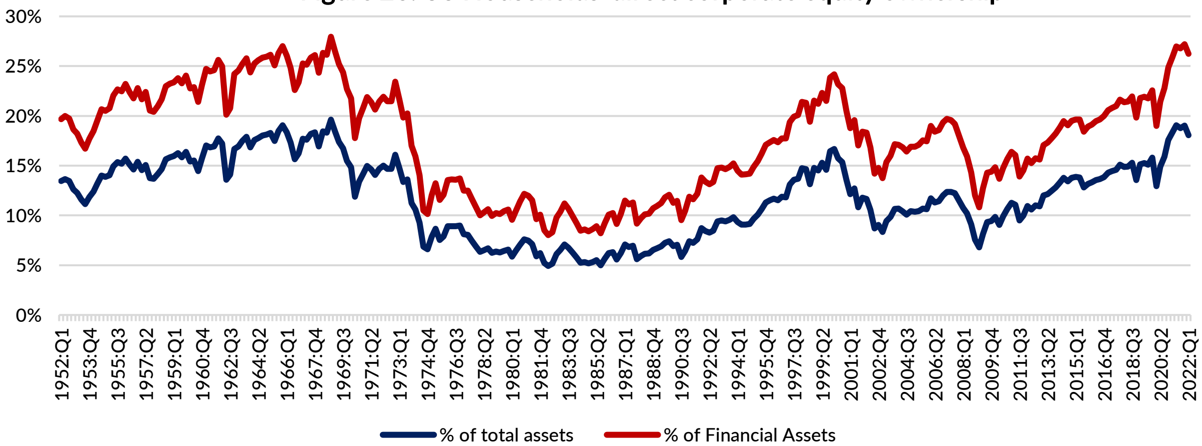
[98] "Other equity", according to the European System of Accounts (ESA2010), means "all forms of equity other than those classified in sub-categories listed shares (AF.511) and unlisted shares (AF.512)" – Eurostat, *European System of Accounts – ESA2010*, European Commission, p. 144, available at:

From these, we deduct that non-financial corporations mostly hold their own equity, and the second largest shareholder – as institutional sector – are financial corporations, represented by investment vehicles, banks, and insurers. Households are far away on this scale.

The Economic Analysis accompanying the 2015 CMU Action plan correctly identified some of the reasons why households prefer *to save* rather than *to invest*: high costs for investment products; no legal protection for losses (unlike the *deposit guarantee schemes*); non-independent advice; sheer complexity of products; limited transparency of information. While reason would dictate that prospects of higher returns carry with it higher risks, "*households attribute an important role to safety and predictability*".[99] Consumer Protection Agencies (CPA) and Alternative Dispute Resolution (ADR) bodies confirm that an opaque fee structure is the subject of regular complaints filed by retail investors that feel misinformed by their advisors or the product information documents (they complain about either the costs being too high or hidden, e.g. costs of the underlying investment fund in life insurance products).[100]

The situation for US households is very different: since 1952, on average, 34% of US household savings have been directed to non-financial assets (real estate and consumer durables) and 66% to financial assets (direct and indirect corporate holdings, claims on benefits in DC/DB schemes, deposits, mutual fund shares, debt securities etc.), ranging from 61% (1982Q2) to 73% (2018Q4). Direct equity ownership is rather low in the EU19 compared to US households, where the lowest rate achieved (8% - 1985Q3 - see Figure 8) is almost as high as the total EU non-intermediated securities holdings (9%).

Figure 26. US Households' direct corporate equity ownership



Source: US Federal Reserve Statistics, own composition

Table 27. EA households - equity holdings breakdown	2013	2014	2015	2016	2017	2018	2019	2020	2021
corporates	63%	61%	60%	60%	60%	62%	62%	61%	60%
other financials	13%	12%	12%	13%	13%	14%	14%	13%	11%
banks	14%	13%	10%	9%	9%	5%	4%	2%	4%
insurers	3%	3%	3%	3%	3%	4%	4%	4%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Own composition based on Euro Area statistics

Additional explanations: When one looks specifically at equity holdings – a long-term financial asset – the average holding period by individual shareholders in the US is much longer than that for "institutional" ones, as the long-term evolution of equity markets shows. EU-wide statistics - if available – would certainly show a very similar evolution. Except for a short period between June 2011 and June

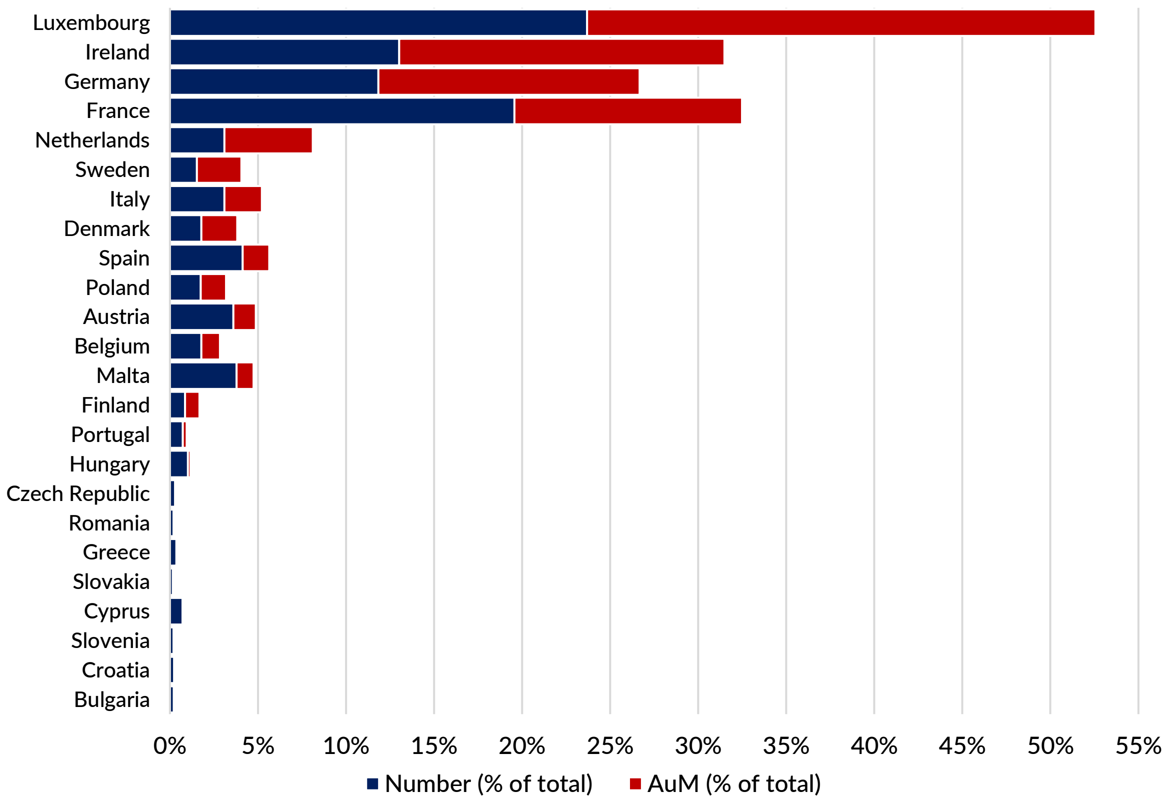
[99] European Commission, Economic assessment (n 21) page 62.
[100] Distribution systems of retail investment products across the European Union https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems_en.pdf, page 78

2012 when the difference between loans and deposits was smaller, for 5 consecutive years the cost of obtaining funding is becoming more and more disproportionate to the price monetary financial institutions offer non-financial corporations for the long-term agreed-maturity deposits.[101]

Retail savers should be incentivised to allocate more of their disposable income into financial assets, in particular to securities, as well as to units in collective investment schemes. In exchange, the financial services industry must deliver more value for money, as current returns on financial savings are poor and will continue to perform as such, in spite of the bond bull market which already came to an end in 2021 (the aggregate bond index decreased, and the aggregate equity index decreased -10%). KPI 3 of this paper shows that the asset allocation of the average EU household's portfolio mainly consists of insurances and retirement savings assets and deposits. Is the market attractive for retail investors?

Additional explanations: Figure 28[102] shows the significant fragmentation of the EU market for investment funds compared to the US and worldwide market. With approximately 4 times more funds distributed, the EU market manages 42% less assets than the US, where there are no mandatory long-term or pension savings (such as occupational pension plans), as is the case in many EU countries. Individual savers mainly invest in UCITS, which account for 75% of the retail sector, whereas AIFs account for only 15%.[103]

Figure 28. Dispersion of investment funds in the EU



Source: EFAMA Quarterly Statistical Releases 2015-2018, averages; own composition

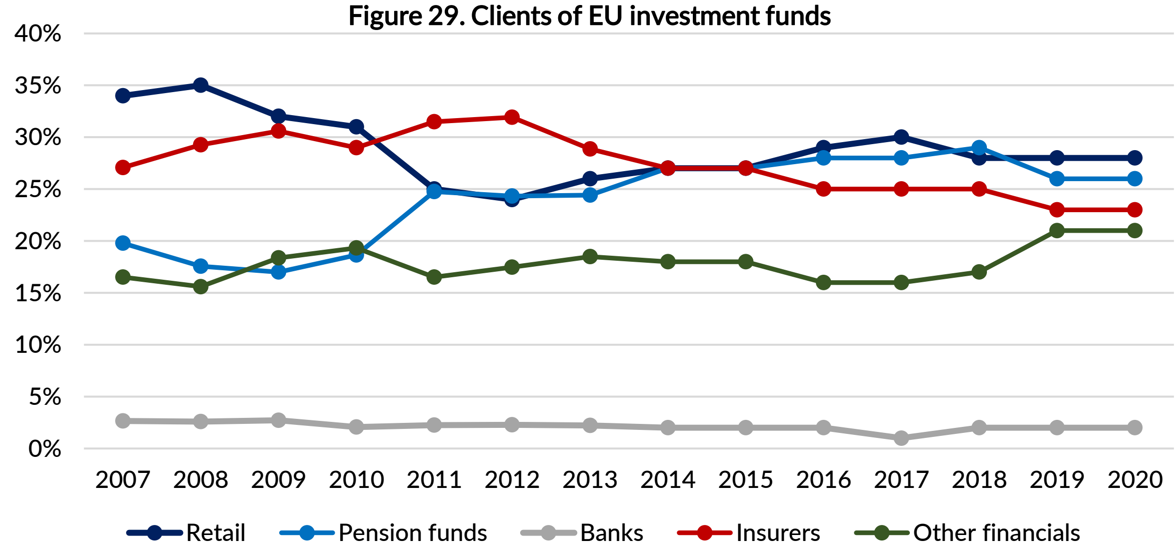
[101] Source: BETTER FINANCE own computations based on Euro-area statistics data on interest rates for long- and short-term loans for households and corporations.

[102] The figures for the number of funds in the EU exclude Latvia, Estonia and Lithuania, for which data was not available.

[103] European Securities and Markets Authority, 'Annual Statistical Report: Performance and Costs of Retail Investment Products in the EU' (10 January 2019) ESMA 50-165-731, p. 7.

The low participation rate of retail savers in intermediated capital market products (investment funds) could be due to the lack of trust or understanding of products, which are complex, opaque and very costly. The number of retail unit holders has fluctuated constantly around 30% of their clients.

Figure 29. Clients of EU investment funds



Source: Own composition based on EFAMA Asset Management Reports 2007-2021; data for 2014 and 2019 proxied

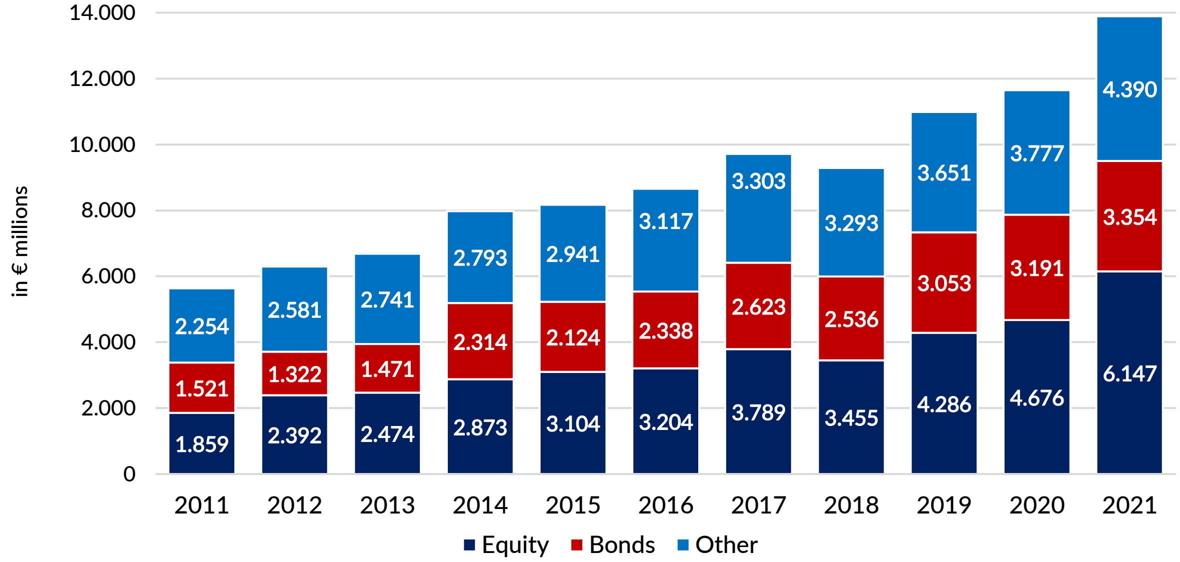
With regards to portfolio composition, EU investment funds[104] are reinvested in other funds (alternative investments, mixed allocation, funds-of-funds) up to 32% of their total assets (-4 p.p. compared to 2015). The largest asset share is debt securities (40% in 2018, +0.5 p.p. increase compared to 2015), followed by equities (37% in 2018, -0.9 p.p. decreased compared to 2015), and around 5% in currency and deposits (stable compared to 2015).[105]

The EU market is increasingly fragmented among national lines, with an excessive number of UCITS and AIFs distributed across jurisdictions. This trend goes against the Single Market and the Commission's proposed Action Plan to harness economies of scale through the introduction of the UCITS passport. Ongoing charges can be lowered, risk sharing can be increased, and asset allocation can be optimised, with investors getting more value for money. Instead, the market for open-ended funds (UCITS and AIFs) reached a total number of 55,596 funds at the end of 2018, compared to 51,365 seven years earlier.

Looking at the type of fund by asset class, the largest share of the AuM has shifted from mixed-assets and alternative securities to equity UCITS (39%) in 2018. The situation is the other way around for AIFs, although breakdowns are not available prior to 2015.

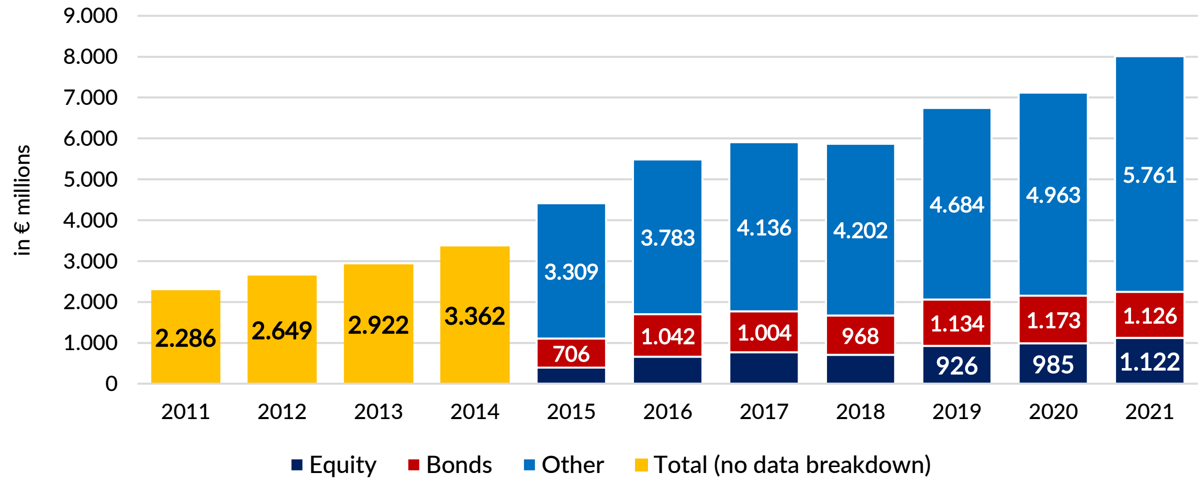
[104] Non-Money Market Funds according to ESA2010; source: Eurostat – data excludes figures for the Czech Republic.
[105] At the time of writing this report, the Eurostat database did not update newer figures.

Figure 30. Evolution of the UCITS market by asset class



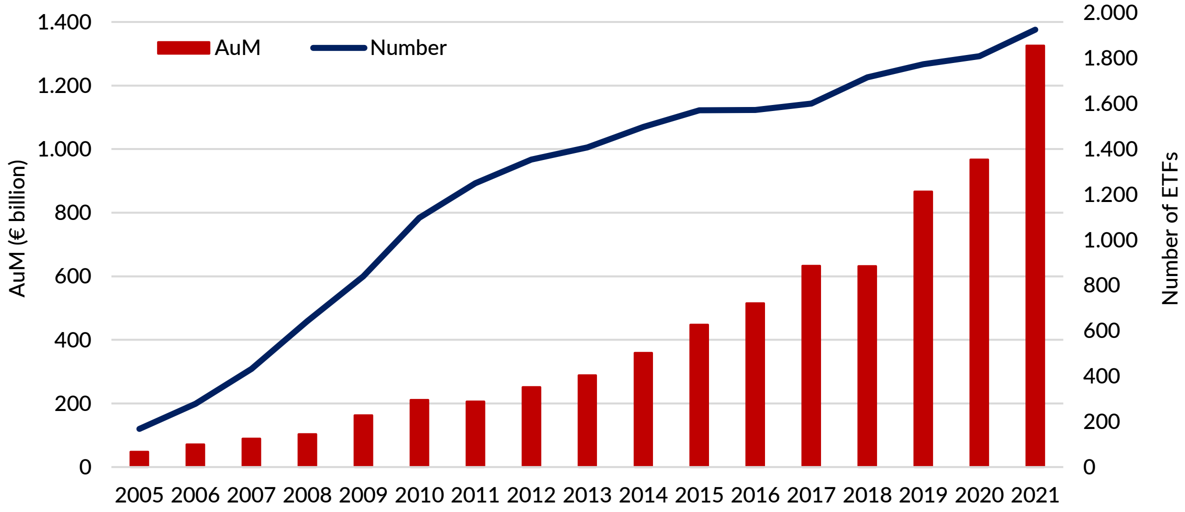
Source: Own composition based on ESMA Quarterly Statistical Releases 2011-2022

Figure 31. Evolution of the AIF market by asset class



Source: Own composition based on ESMA Quarterly Statistical Releases 2011-2022

Figure 32. Evolution of EU ETF market



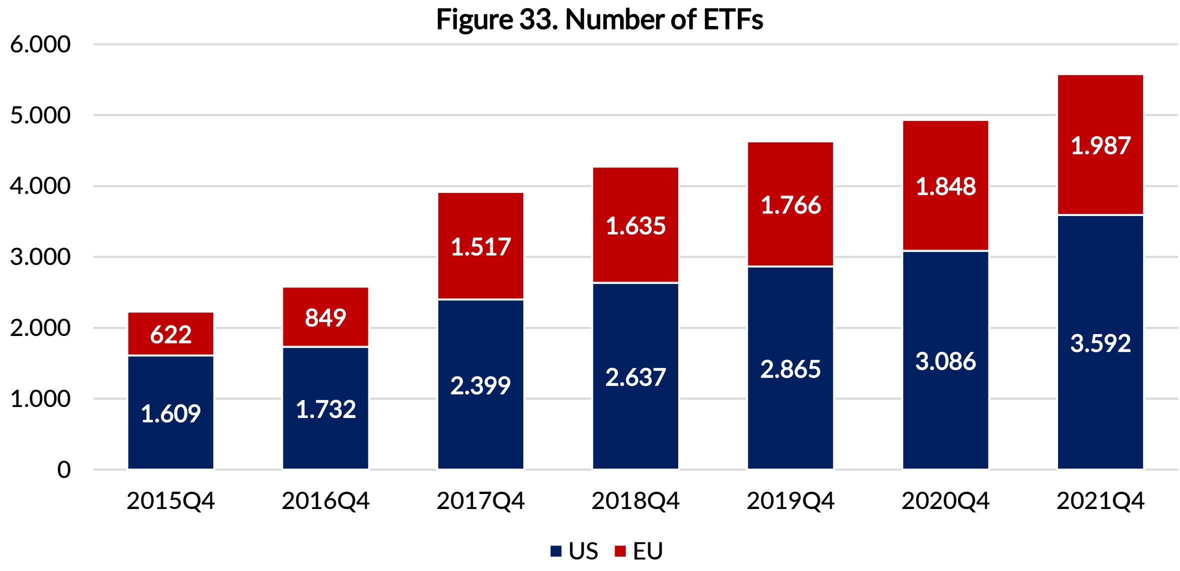
Source: Own composition based on Statista data

Additional explanations: Fortunately, the European ETF market took off very well. ETFs have the advantage of considerably lower fees, allowing them to be as close as possible to market returns, in many occasions even overperforming. Since investment funds generally (close to 82%) do not overperform capital markets, it is much more attractive to invest in a simple product that costs much less and which, in general, aims to keep as close as possible to the performance of the market.

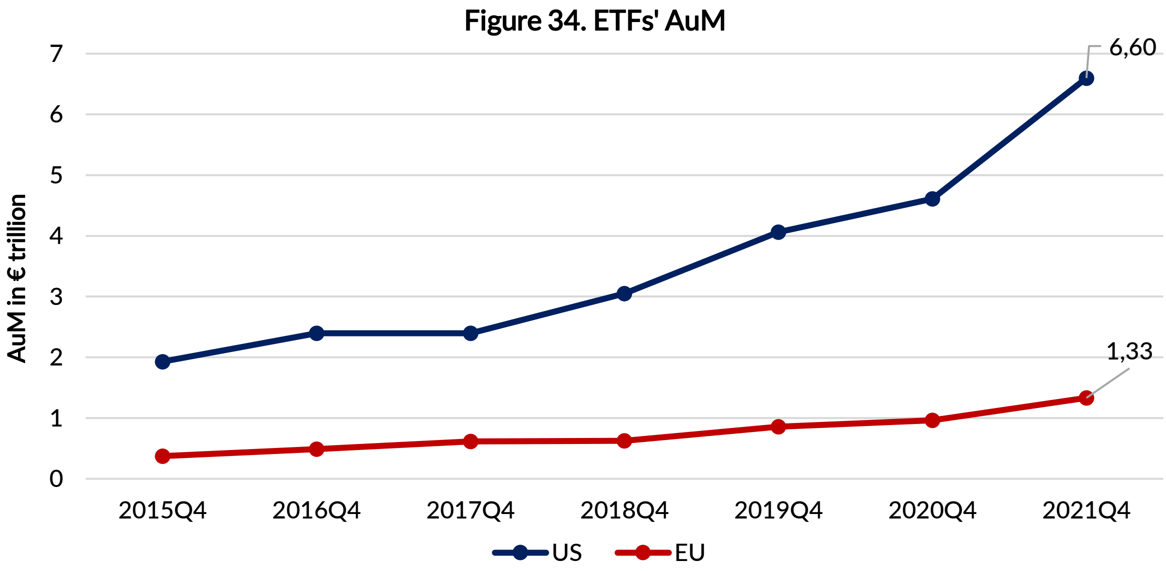
Moreover, the AuM of EU-listed ETFs has grown significantly over the last 17 years, reaching €1.3 trillion at the end of 2021. Still, the ETF market is much smaller than the UCITS and AIF ones: 2021 closed with just above 1,900 ETFs, whereas UCITS and AIFs counted 27,511 in total.

The dominant commission-based distribution model in the EU keeps fees high and does not incentivise retail distributors to promote low-cost index funds such as ETFs and direct investments in equities and bonds. BETTER FINANCE on several occasions highlighted its support for ETFs and, especially, UCITS index-ETFs, that are better performing than "actively managed" funds, and at a third of the cost.

Retail investors are "sold", not advised, into more and more packaged products, and not direct holdings of securities (such as shares and bonds), mainly due to the distribution models available in the EU. In many countries, the captive or "in-house" distribution model is dominant, meaning that financial products are advised on and sold by salaried networks, to which the MiFID II provisions on independent/non-independent advice do not apply, and which sell only in-house products, such as funds. Moreover, in France the 15-year-old ban on inducements for personal pension products (PPPs) has been lifted in 2019, resulting in a stronger incentive to sell certain packaged products.



Source: EFAMA International Quarterly Statistical Releases 2015-2021



Source: EFAMA International Quarterly Statistical Releases 2015-2021

Of importance for the completion of the CMU is also the *cross-border distribution* of investment products. According to the study published by EFAMA,[106] funds owned by investors domiciled in countries other than that where the fund is domiciled accounted for less than a third (32%) in 2017, although slightly increasing from the level of 2008 (25%). However, at Member State level, the ownership of foreign investment fund ranges from 8% in Poland to 70% in Italy, and the European average is at 61% domestic and 39% cross-border.

Of those investment funds distributed cross-border, in some jurisdictions (such as Greece and Spain) the majority are "round-trip", meaning that the domicile is foreign, but the management company is

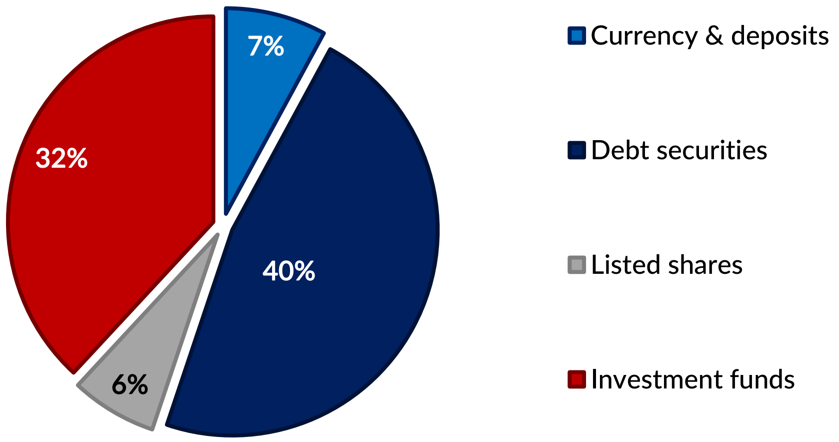
[106] EFAMA (n 60), p 18.

domestic. Cross-border UCITS are distributed, on average, in 5 jurisdictions, while out of the 3% of cross-border AIFs, 75% are domiciled in France, Germany, Luxembourg, Ireland and the Netherlands.[107]

In our view, the poor performance of investment funds may also contribute to households' preference for bank products. Two annual research studies conducted by S&P Dow Jones Indices find that a vast majority of equity funds underperform their benchmarks: On a 10-year average, only 9% of Eurozone equity funds and 13% of European equity funds have beaten their corresponding benchmark index.[108]

The net fund inflow for funds domiciled in the Euro area remained constant between institutional sectors. In 2013, the highest domestic cashflow for unit-linked investments came from financial corporations (47% on average- banks, pension and investment funds, insurers, other financial corporations), followed by foreign investments (28% on average- rest of world) and only 24% on average from households and NFCs, the real economy.

Figure 35. EU27 insurers & pension funds' main investments - annual average



Source: own composition based on Eurostat data; 2012-2021

[107] Esther Kramer, Maria Gimeno, 'Initial Appraisal of a European Commission Impact Assessment: Cross-Border Distribution of Collective Investment Funds', European Parliamentary Research Service (July 2018) PE. 621.849, P. 2.
[108] S&P Dow Jones Indices LLC: SPIVA Europe Scoreboard, Year-End 2018, Report 1, p.4, https://www.finanzaoperativa.com/wp-content/uploads/sites/7/2019/04/spiva-europe-year-end-2018.pdf.

Table 36. Number of new investors in EU's capital markets			
Jurisdiction	Period of reference	# new investors	type
Austria	*no data on the number of new investors*		
Belgium	2019Q4 - 2020Q3	~44,000	BEL20 equity investors
Denmark	*no data on the number of new investors*		
Finland	2019Q4 - 2020Q3 2019Q4 - 2022Q1	82,766 140,988	retail investors (gen.) shareholders
France	03-04/2020	150,000	CAC40 equity investors
Germany	2019Q4 - 2021Q4 2019Q4 - 2021Q4 2019Q4 - 2021Q4	~2,300,000 ~400,000 ~500,000	equity-like instruments (gen.) investment funds & ETFs only shareholders only
Italy	02-03/2020	~100,000	retail investors (gen.)
Netherlands	2019Q4 - 2021Q4	~180,000	retail investors (gen.)
Poland	2019Q4 - 2020Q4	144,000	retail investors (gen.)
Portugal	2019Q4 - 2021Q4 2019Q4 - 2021Q4	165,469 87,440	domestic funds investors* foreign UCIs investors
Romania	2019Q4 - 2022Q1	112,971	fund investors
Spain	*no data on the number of new investors*		
Sweden	2019Q4 - 2021Q4	113,670	shareholders only

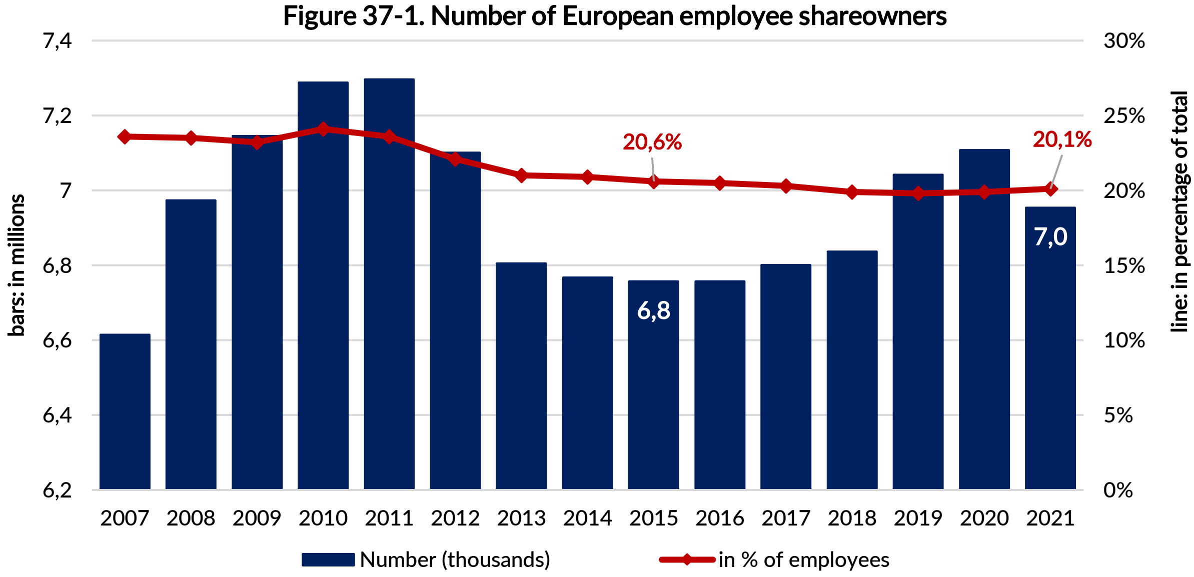
Source: BETTER FINANCE research on the *New Retail Investing Environment* (May 2022)

Jump back to KPI3.

KPI 4- The EU equity investment culture

Jump back to KPI4.

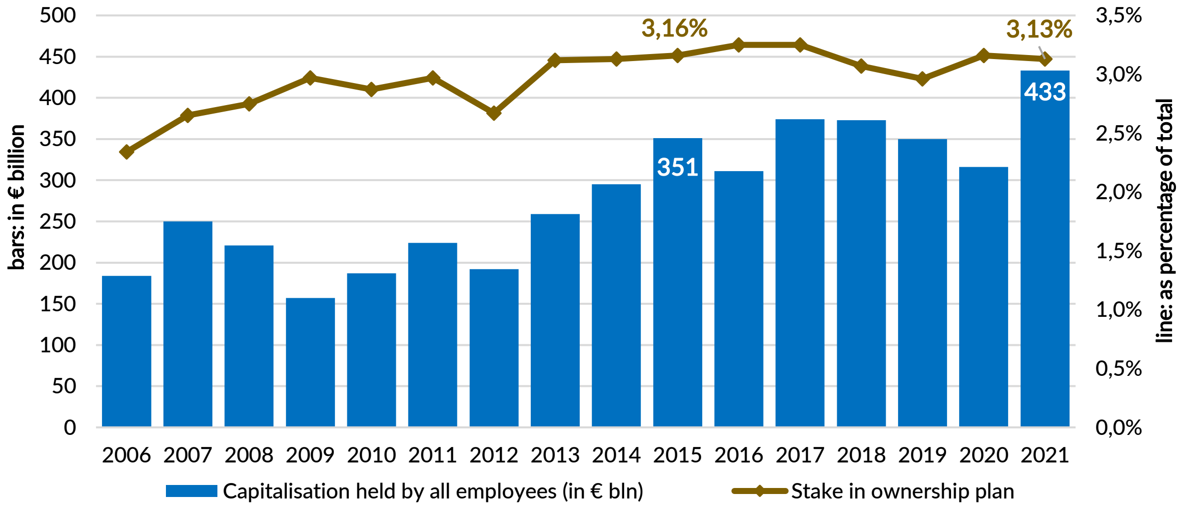
Figure 37-1. Number of European employee shareowners



Source: own composition based on EFES data, 2022[109]

[109] European Federation of Employee Share Ownership, Annual Economic Survey of Employee Share Ownership in European Countries (2022), p. 23, available at: http://www.efesonline.org/Annual%20Economic%20Survey/Presentation.htm.

Figure 37-2. Holdings of European employee shareowners



Source: own composition based on EFES data, 2022[110]

Additional explanations: The decline of direct ownership by EU citizens of their economy has deeper economic and political implications: Europe has transitioned to a financial type of capitalism where the link between owners and entrepreneurs/managers has been severed, and where the power to make decisions is increasingly in the hands of financial institutions. Direct individual ownership of securities should be encouraged rather than discouraged in order to better align the interests of capital market participants with those of the real economy and to boost growth and jobs.

The recent evolution from direct securities ownership to packaged investment products has also had a very negative effect on financial literacy, in particular on the knowledge of what shares, bonds and capital markets are, and what their benefits are for the economy and for investors.[111]

Indeed, there are two main opportunities for EU adult citizens to be informed and educated about equity and bonds and capital markets: at the point of sale - when they are in contact with their financial intermediary - or at the workplace. The "retail" intermediary himself is today far less knowledgeable about capital markets, equity and bonds, since in most cases he stopped marketing and selling them a long time ago in favour of more complex, fee-laden packaged products. A level-playing field for shares and bonds is needed in retail financial distribution.

The workplace can be the other important opportunity to educate adult EU citizens, in particular via the promotion of employee share ownership. Employee share ownership constitutes, on an aggregate basis, a sizeable share of individual equity portfolios, which has experienced episodes of significant growth in the past but seems to have lost momentum in recent years. Employee share ownership should be encouraged while preserving diversification of employee savings.

The number of employee owners in the US is almost four times higher than in the EU, and the value of their assets (equity, market capitalisation) is more than 8 times that of Europeans.

While the number of European employee owners (in domestic companies) has decreased in the past couple of years, compared to the level of 2010, the number of companies that started to implement this

[110] European Federation of Employee Share Ownership, Annual Economic Survey of Employee Share Ownership in European Countries (2022), p. 23, available at: http://www.efesonline.org/Annual%20Economic%20Survey/Presentation.htm.

[111] For more reading on this issue: "*An Investor Viewpoint: The Fall of Financial Literacy*" by Guillaume Prache, in the EFAMA Report "Building Blocks for Industry Driven Investor Education Initiatives", March 2014.
http://www.efama.org/Shared%20Documents/EFAMA_Investor_Education_Report.pdf http://www.efama.org/Pages/EFAMA-Investor-Education-Report-Uncovers-Widespread-Financial-Illiteracy-across-Europe.aspx

kind of share-based plans has increased considerably, in particular publicly listed companies. From merely a thousand listed companies at the end 1999, the number of corporations that offer share-plans rose to 2,100 by the end of 2017. On the other hand, SMEs (and other non-listed companies) have not grown as fast (in fact, far from it), counting between 300 thousand and 1 million employees holding title of capital participation in their workplace.

The European Council highlighted as early as 1992 the necessity for EC Member States to incentivise enterprises and companies to increase capital participation of their employees by legislative policy in this direction. There is a high degree of correlation between the number of employee shareholders in each Member State and the number of domestic regulations supporting this type of broad-based plans (plans for all company's employees). But there is also a high divergence between EU Member States. While 9 countries do not have any kind of specific legislation and 10 do not provide any incentive towards this goal, others (such as the UK or France) are way ahead. "*This gap is detrimental to all* [...] *In large European companies, employees in countries without legislation suffer negative discrimination. For the same reason, the mobility objectives in the Union are thwarted*."[112] Following a 2015 proposal from BETTER FINANCE, in 2017 the EC added a new CMU action to "*develop best practices in employee share ownership schemes*" to boost the equity culture in Europe. Unfortunately, to date the EC has been reluctant to follow-up on its 2014 "Pilot project" for ESO.

Jump back to KPI4.

KPI 5 - Investment returns for EU retail savers

Jump back to KPI5.

Table 38. Average fees in EU funds in 2017			
Type of CIS	Fee	Type of CIS	Fee
Equity fund	1.89%	Equity ETF	0.31%
US equity fund	0.45%	Real estate fund	1.28%
Mixed fund	1.51%	Life insurance (G)	0.88%
Bond fund	1.01%	Pension product	1.45%
Life insurance	1.38%	Pension fund	1.15%

Table 39. ETF ongoing charges EU vs US 2017		
Type	EU	US
Equity	0.31%	0.22%
Fixed income	0.27%	0.23%
Multi-asset	0.68%	0.53%
Average	0.30%	0.23%

Source: CEPS/ECMI; own composition; data for 2018 is not publicly available;

The average fees of EU equity funds were in 2017 4 times higher than in the US, and the US equity ETFs were 5 times less expensive than their EU counterparts. The already mentioned fragmentation of the EU market explains the high level of fees Europeans face: by limiting the number of potential investors that any fund can reach; market fragmentation prevents EU funds from achieving economies of scale – the average AuM amount of US funds is also much larger than that of EU funds - which makes it more difficult for the European fund industry to offer competitive prices.

The same observation can be made about life-cycle pension funds: In its 2018 study on those products, BETTER FINANCE found that the average fee for a US life-cycle pension fund was 64 bps, less than half the fees charged for the 28 EU funds in the scope of the study.[113]

Table 40. Total Expense Ratio (TER) for UCITS - short-term						
1Y TER | EU	2015	2016	2017	2018	2019	2020
Equity UCITS	n.a	n.a.	1.76%	1.52%	1.47%	1.48%
Bond UCITS	n.a.	n.a.	1.19%	1.02%	0.98%	0.96%
Equity UCITS ETFs	n.a.	n.a.	0.30%	0.30%	0.30%	0.30%
Bond UCITS ETFs	n.a.	n.a.	0.30%	0.30%	0.30%	0.30%

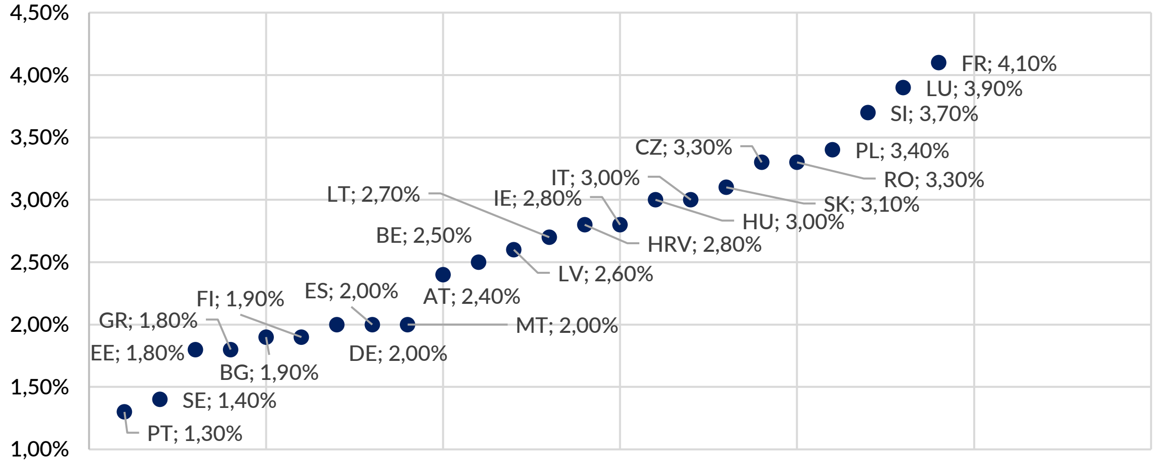
Source: Own composition based on ESMA Performance and Costs reports, 2018-2022

[112] See supra (n 54), pages 13 and 17.
[113] BETTER FINANCE, *Study on the Dispersion of Risk Mitigation Techniques in Life Cycle Pensions* (4 July 2018) https://betterfinance.eu/wp-content/uploads/The_Dispersion_of_Risk_Mitigation_Techniques_in_Life_Cycle_Pensions_-_Final_Report_-_130618.pdf.

Table 41. Total Expense Ratio (TER) for UCITS - long-term						
10Y TER | EU	2015	2016	2017	2018	2019	2020
Equity UCITS	n.a.	n.a.	1.76%	1.52%	1.47%	1.48%
Bond UCITS	n.a.	n.a.	1.19%	1.02%	0.98%	0.96%
Equity UCITS ETFs	n.a.	n.a.	0.40%	0.40%	0.30%	0.30%
Bond UCITS ETFs	n.a.	n.a.	0.20%	0.20%	0.20%	0.30%

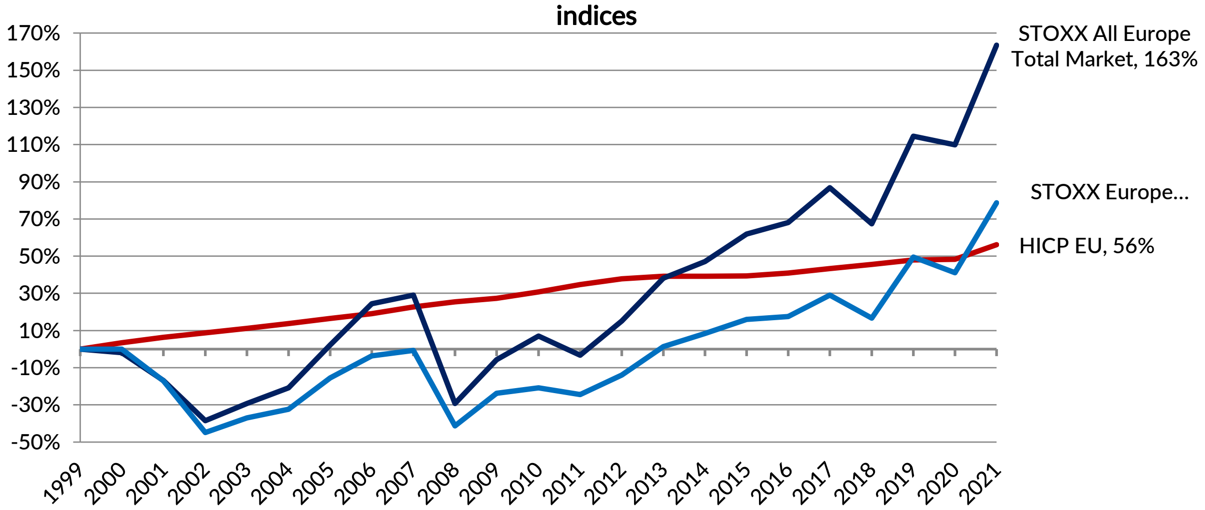
Source: Own composition based on ESMA Performance and Costs reports, 2018-2022

Figure 42. "Costs" of unit-linked insurances in the EU (2020)

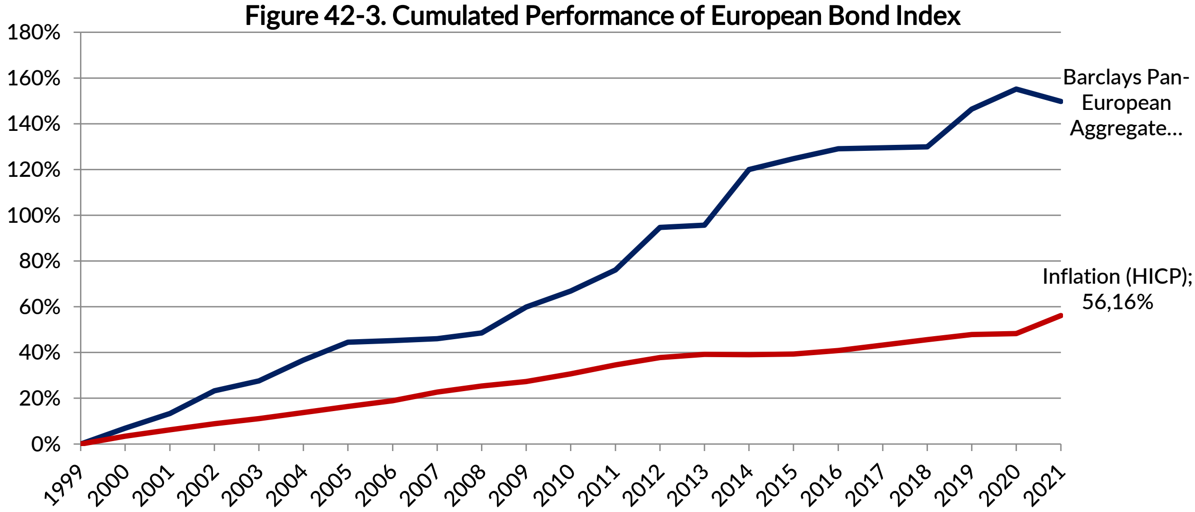


Source: Own composition based on EIOPA Cost and Performance reports (2021, 2022); the figures above correspond to the Reduction-in-Yield (RIY), a synthetic cost indicator that estimates how much costs will reduce the forecasted return at the end of the recommended holding period (RHP); data is for the end of 2020 based on statistical sampling and surveys conducted by EIOPA;

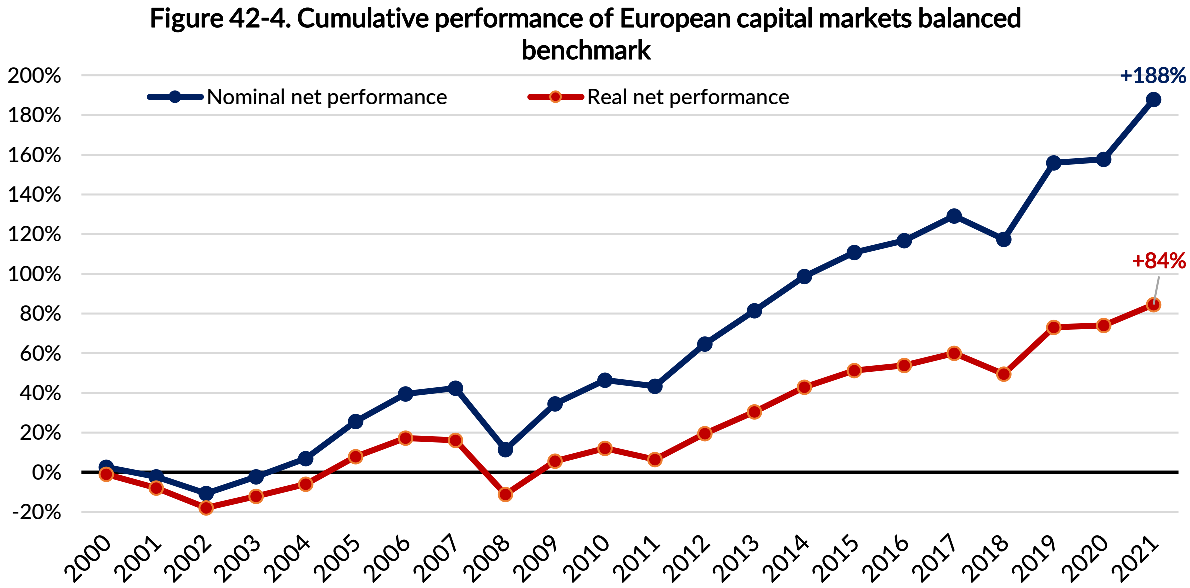
Figure 42-2. Cumulative performance of the European wide vs narrow equity indices



Source: Own composition based on STOXX and Eurostat data

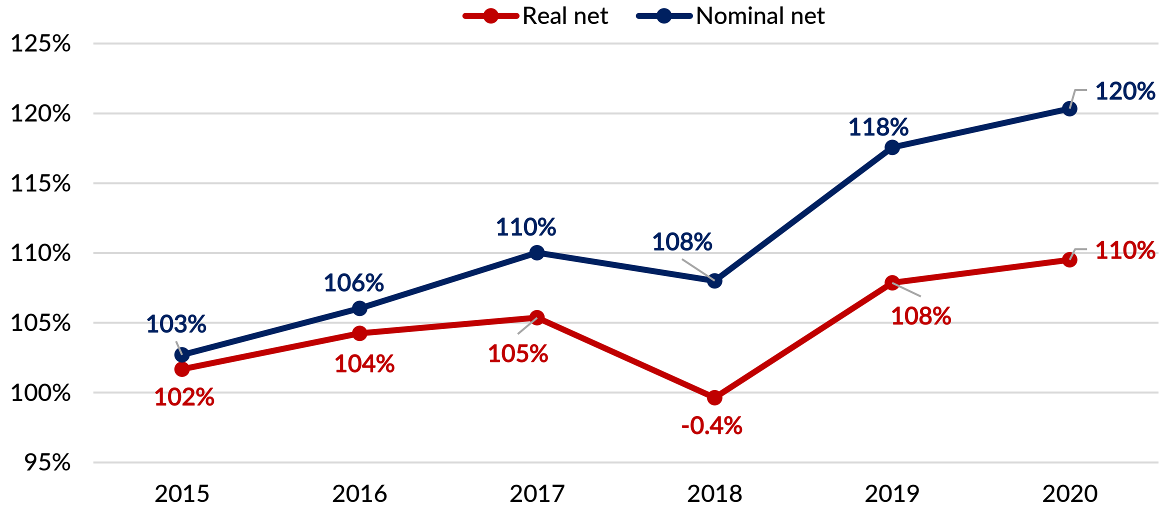


Source: Own composition based on Bloomberg and Eurostat data



Source: Own composition based on Bloomberg, STOXX, Eurostat data

Figure 42-5. Proxy portfolio performance



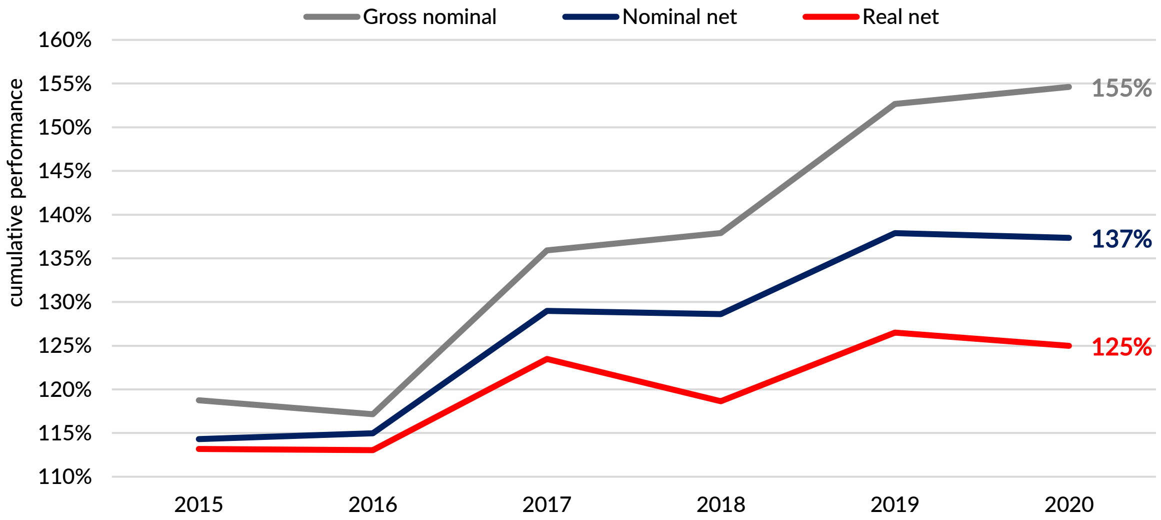
Source: Own composition based on EFAMA, Stoxx, Bloomberg, ESMA, EIOPA, InvestEurope, NL AFM, Eurostat data

Additional explanations: BETTER FINANCE aimed to replicate the portfolio of the average EU27 household and calculate proxy returns on this portfolio. In other words, how much profit did a "retail" investor make over the last six years from his financial savings?

BETTER FINANCE started the proxy calculation from the Eurostat data on the financial balance sheets of EU27 households. Given that we could not obtain net of charges data for household deposits or the returns for loans and financial derivatives, we proxied the portfolio to be composed of equity (private and listed shares), debt securities, investment funds, insurances and pensions.

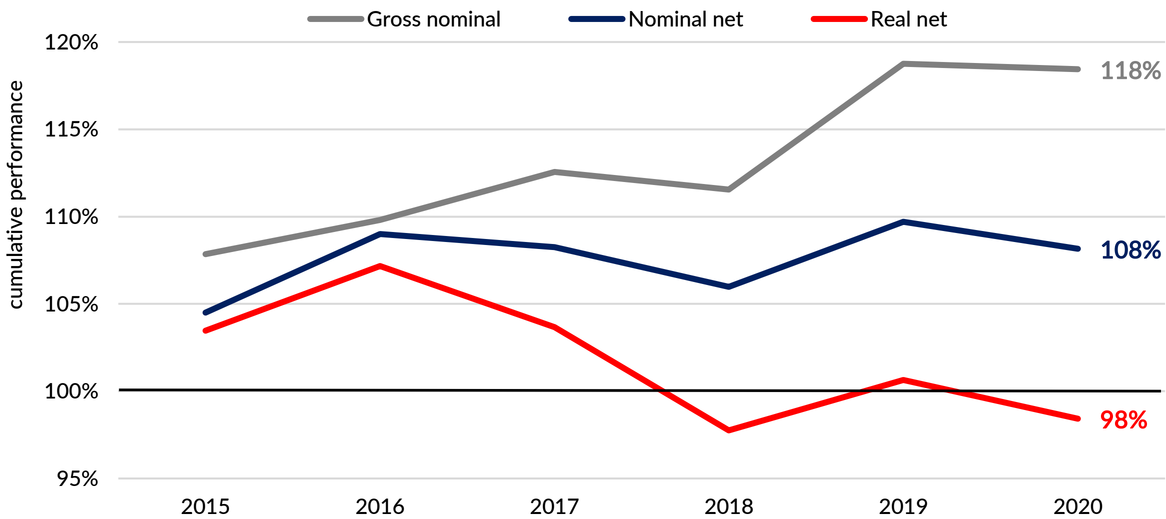
Further, we proxied the return data for the 5 main asset categories: for listed shares, we used the European broad market equity index returns (STOXX All Europe Total Market), for debt securities we used the European broad market bond returns (Bloomberg Pan-Euro Aggregate), for private equity we used the aggregate returns on private equity funds provided by InvestEurope, for investment funds we proxied the UCITS equity and bond returns provided by ESMA, for insurances we used the EIOPA data on unit-linked, hybrid, and profit participation products, and for pensions we proxied the returns of Dutch occupational pension funds (highest return observed in European privately managed occupational pensions in the BETTER FINANCE report). The returns are adjusted by their weight in the portfolios of EU27 households which are then re-weighted and calculated to make up for 100% of the portfolio.

Figure 43. Equity UCITS performance (all)



Source: Own composition based on ESMA Performance and Costs reports, 2018-2022

Figure 44. Bonds UCITS performance (all)



Source: Own composition based on ESMA Performance and Costs reports, 2018-2022

Table 45. Percentage of European equity funds beating their benchmarks

Fund Category	Comparison Index	2014	2015	2016	2017	2018	2019	2020	2021	3-year (2019-2021)	5-year (2017-2021)	10-year (2012-2021)
Funds denominated in Euro (€)												
Europe Equity	S&P Europe 350	17%	32%	20%	53%	14%	29%	37%	25%	30%	25%	14%
Eurozone Equity	S&P Eurozone BMI	15%	58%	20%	26%	23%	21%	58%	35%	21%	13%	8%
France Equity	S&P France BMI	31%	45%	33%	47%	2%	10%	34%	17%	9%	14%	8%
Germany Equity	S&P Germany BMI	26%	46%	12%	61%	26%	43%	46%	60%	35%	26%	20%
Italy Equity	S&P Italy BMI	n.a.	32%	39%	72%	25%	5%	55%	67%	12%	18%	20%
Spain Equity	S&P Spain BMI	n.a.	24%	34%	32%	41%	14%	62%	54%	22%	26%	17%
Netherlands Equity	S&P Netherlands BMI	n.a.	36%	38%	25%	0%	0%	83%	20%	0%	0%	0%
Funds denominated in local currencies												
U.K. Equity	S&P United Kingdom BMI	45%	78%	13%	54%	27%	73%	80%	18%	66%	44%	35%
Sweden Equity	S&P Sweden BMI	n.a.	58%	45%	51%	38%	44%	52%	94%	35%	31%	19%
Denmark Equity	S&P Denmark BMI	n.a.	30%	97%	0%	16%	22%	32%	60%	11%	47%	15%
Poland Equity	S&P Poland BMI	n.a.	80%	31%	7%	7%	80%	94%	52%	68%	39%	37%

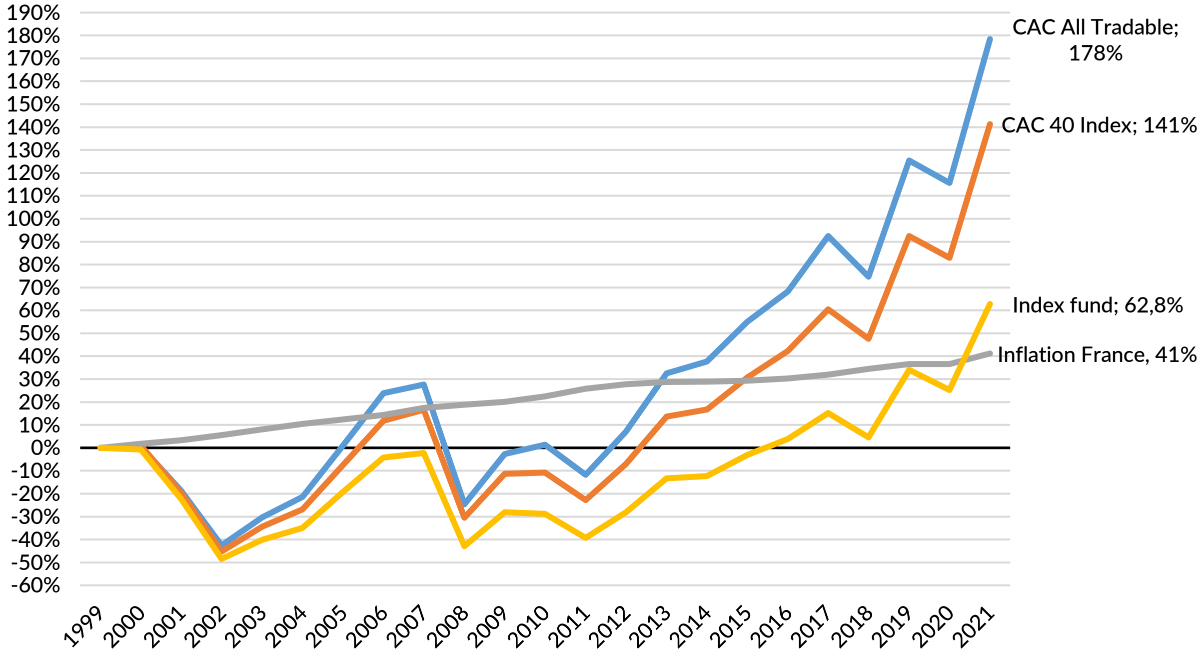
Source: Own composition based on S&P SPIVA Scorecards 2015-2022

Table 46. Nominal and real net returns of IBIPs

Year	Nominal net			Real net			HICP EU
	Unit-linked	Hybrid	Profit participation	Unit-linked	Hybrid	Profit participation	
2015	1.4%	n.a.	1.8%	0.4%	n.a.	0.8%	1.0%
2016	4.5%	1.1%	1.7%	3.8%	0.4%	1.0%	0.7%
2017	5.3%	2.4%	1.5%	2.6%	-0.3%	-1.1%	2.7%
2018	-6.1%	-2.6%	1.4%	-9.5%	-6.2%	-2.3%	3.8%
2019	14.1%	7.6%	1.2%	13.5%	7.0%	0.6%	0.5%
2020	4.7%	2.4%	0.9%	3.9%	1.6%	0.1%	0.8%
Cumulative	125.2%	111.1%	108.8%	113.9%	102.1%	99%	109.9%
Average	3.8%	2.1%	1.4%	2.2%	0.4%	-0.2%	1.6%

Source: Own composition based on EIOPA Cost and Performance Reports (2021, 2022)

Figure 47. Real case of French retail equity fund



Source: BETTER FINANCE Pensions Report, 2022 edition

Table 48. Cost and return comparison on French life insurance contracts

	Average charges (unit+contract)	Market share	Net performance
Classic units	2.98%	93%	36%
Clean share units	2.02%	1%	44%
Indexed units	1.18%	2%	58%
Index ETFs	**0.25%**	**-**	**68%**

Source: Own composition based on GoodValueForMoney.eu data, 2022

Table 49. French corporate savings plans - 22 years returns before tax (1999-2021)

Fund ("FCPE") category	Equity	Bond	Money market	Diversified	All funds
22Y Nominal return	85.4%	74.2%	29.6%	78.2%	74.2%
Yearly average	3.0%	2.7%	1.2%	2.8%	2.55%
22Y Real return	30.5%	23.4%	-8.5%	26.1%	23.4%
Yearly average	1.3%	1.0%	-0.4%	1.1%	0.96%

Source: Own composition based on AFG/Europerformance data; BETTER FINANCE Pensions Report 2022

Table 50. Example of a Belgian life insurance (Branch 23)

Capital markets vs. Belgian individual pension insurance 2000-2021 performance	
Capital markets (benchmark index*) performance	
Nominal performance	288%
Real performance (before tax)	183%
Pension insurance performance (same benchmark)	
Nominal performance	182%
Real performance (before tax)	116%

*Sources: BETTER FINANCE own computations based on Morningstar data** Benchmark is composed of 50% bonds (Barclay's PanEuro Agg) + 50% STOXX AETM

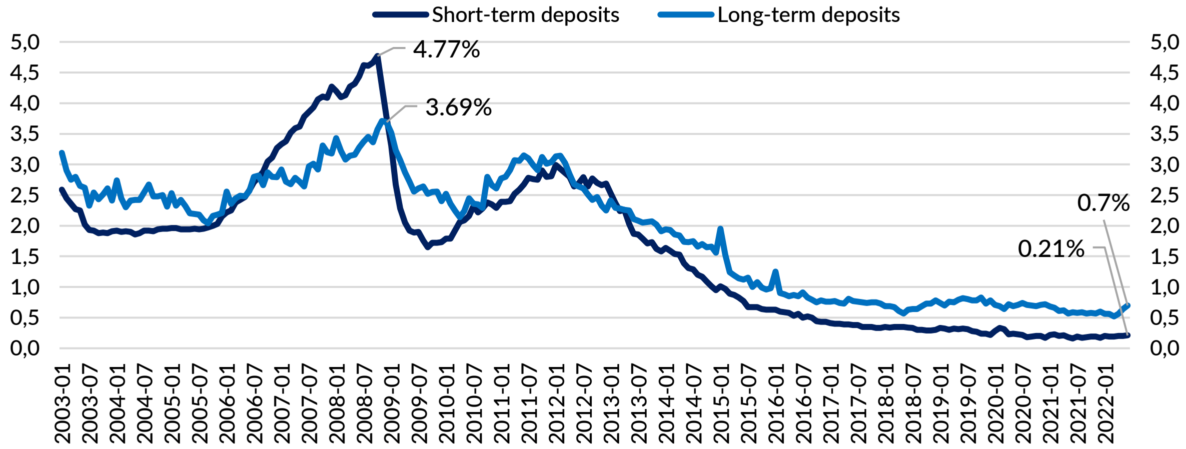
Figure 51. Before tax annualised returns on pension savings (long-term)

Source: BETTER FINANCE annual report on *the Real Returns of Long-Term and Pension Savings, 2022*

Additional explanations: BETTER FINANCE's research report on the correlation between fees and performances in European investment funds showed that only 27% of UCITS and AIFs - domiciled in Belgium, France and Luxembourg – delivered excess return on 5-year moving averages from 2008-2017 (quarterly basis), i.e. 509 funds of the total of 1,886 analysed.[114] The strongest "weight" on fund performance are fees, whereas the size of AuM is the only positive determinant of fund returns. In other words, in general fees significantly reduce gross returns, and can only be offset by large economies of scale. Even when compared with the low-cost fund alternative (ETFs), active management returns lower net performances compared to passive (or index) management.[115] The study also revealed that 1 in 5 funds manage to overperform the benchmark only 3 years out of 10, but the percentage decreases dramatically as the number of overperformances increases: less than 1% of the funds in the sample managed to overperform their market index every year during a holding period of 10 years.

Even so, when asset managers find themselves in the top quartile and overperform the benchmark, another S&P study (limited to the US market) shows that, in most cases, overperformance should be attributed to chance rather than manager's competence. That is because the "*persistence scorecard*" of 2018 shows that only 0.45% of the funds who were the "best in class" initially, have kept their position on a 5-year analysis period. Considering the interconnectedness of the US and EU asset management industry, one can hardly imagine that the results for Europe would be better.[116]

Figure 52. Eurozone bank interest rates for household deposits (in %)



Source: Own composition based on ECB SDW data

Jump back to KPI5.

KPI 6 – Coherence of EU sectoral legislation

Jump back to KPI6.

KPI 7 – Sustainable finance outlook

Jump back to KPI7.

Methodology

The inclusion of this KPI on 'Sustainable Finance outlook' is necessary to provide an overall perspective of how capital markets are performing in relation to the US and the rest of the world. As mentioned before, sustainable finance is not an explicit action point under the CMU but remains a cornerstone of

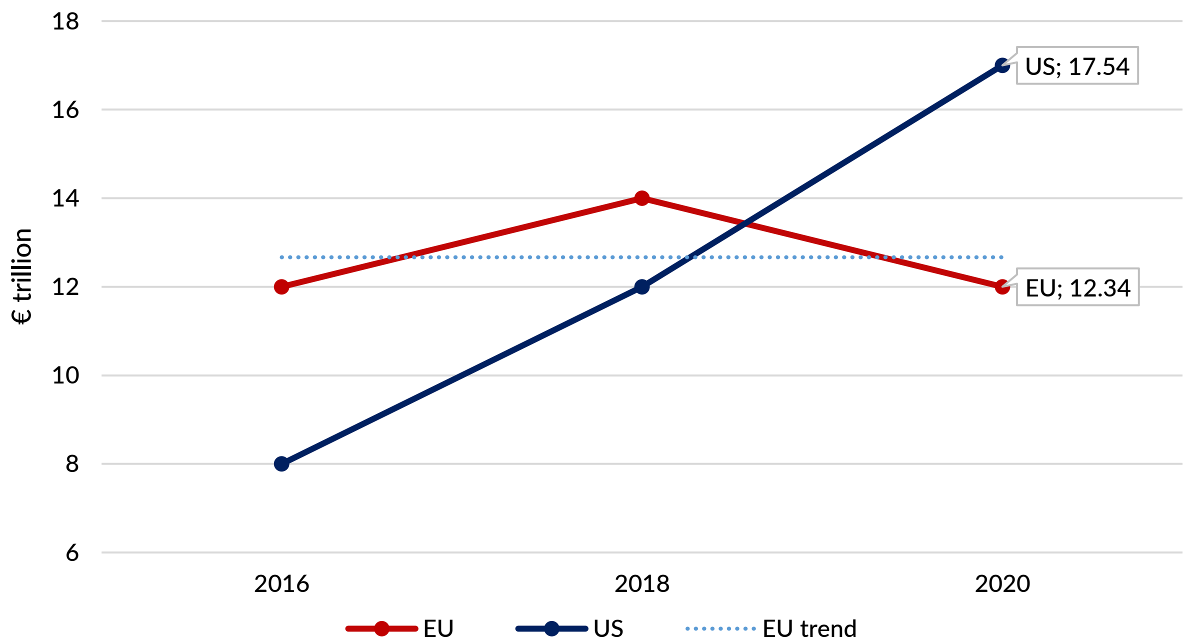
[114] BETTER FINANCE, *Study on the Correlation between Costs and Performance of EU Equity Retail Funds* (June 2019) https://betterfinance.eu/wp-content/uploads/BETTER1.pdf.
[115] ESMA, *Trends, Risks, and Vulnerabilities Report*, no. 2 of 2019, https://www.esma.europa.eu/sites/default/files/library/esma_50-165-883_report_on_trends_risks_and_vulnerabilities_no.2_2019.pdf.
[116] S&P Persistence Scorecard, Year-end 2018, https://www.spglobal.com/en/research-insights/articles/does-past-performance-matter-the-persistence-scorecard.

the European Green Deal and Sustainable Finance Strategy which is intended to support the development of the capital markets and by extension the Capital Markets Union.

The data for this KPI encompasses public information from annual reports conducted by UNCTAD, EFAMA, AFME, ESMA, EBA, Climate Bond Initiative and GSIA. It should be noted that aggregate findings are purely based on these datasets, which may not be fully representative of the entire landscape of sustainable finance due to data and transparency issues. Important to note in this regard is the fact that data from different publicly available sources may have different scopes. For example, some sources do not consider all funds domiciled in the EU and the selected European countries. Despite the challenges of collecting comparable and easily accessible data for a comprehensive analysis, this section aims to illustrate the performance of EU capital markets in sustainable activities with comparison to the US and the rest of the world. The indicators used throughout this section are inclusive of sustainable assets; AUM of sustainable funds; net ESG funds' performance; green and sustainable bond issuance; and portion of green bonds denominated in €.

Finally, we based our research for this KPI on the period 2016 - 2020 purely due to limitation of comparable and easily available information for other periods. Additionally, though existing data for the period 2021-2022 is available to a limited extent, given the recent regulatory updates not all products considered in the previous period as sustainable could meet the new regulatory definitions, an issue that further data transparency and availability may hopefully alleviate in the near future.

Figure 53. Total value of sustainable investing assets in € trillion

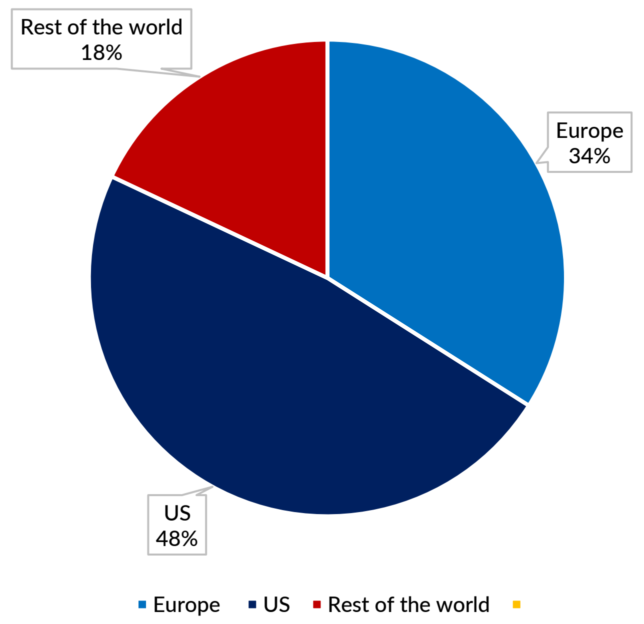


Source: Global Sustainable Investment Alliance Report 2020, own composition

Additional explanations: This indicator doesn't explain the extent of all Member States' contribution towards the overall sustainable assets in Europe and more data is needed to evaluate individual contributions of the capital markets in meeting sustainability requirements.

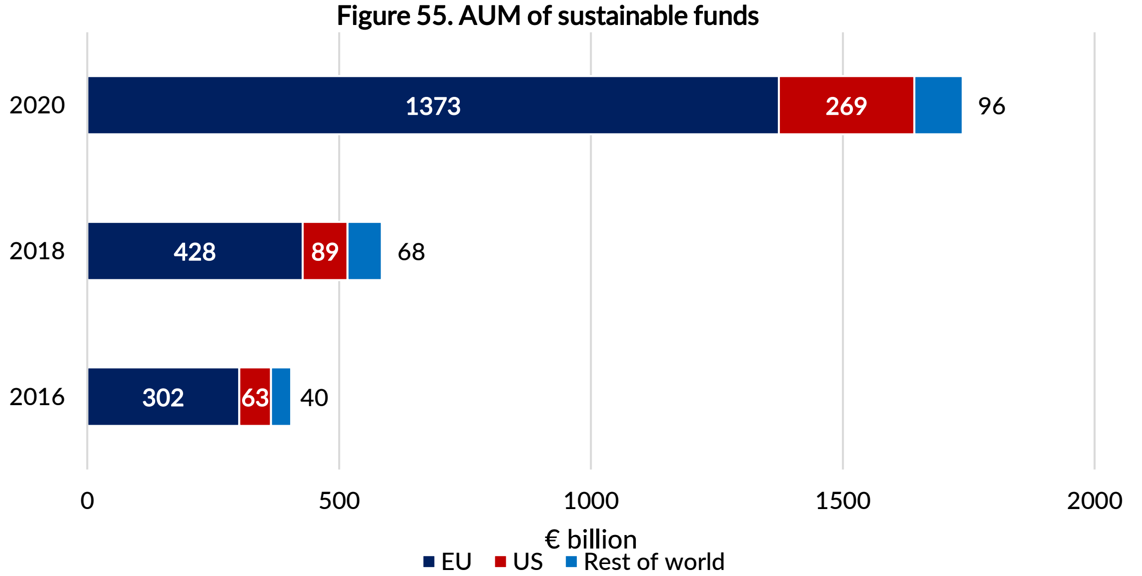
Note: The European data covers 18 European countries including UK, Norway, Switzerland, Liechtenstein. The data encompass several strategies previously covered by compiling the AUM of institutions that exercise ESG integration, exclusions and engagement but does not necessarily reflect in precise detail the distribution of assets managed under each of the sustainable and responsible investment strategies such as best-in-class, norms-based screening, and sustainability-theme investments. *Assets for 2016, 2018 and 2020 were reported as of December 2015, 2017, and 2019 respectively. It should also be noted that for figures in 2020, Europe includes the following countries Austria, Belgium, Bulgaria, Denmark, France, Germany, Greece, Italy, Spain, Netherlands, Poland, Portugal, Slovenia, Sweden, the UK, Norway, Switzerland, Liechtenstein.*

Figure 54. Global sustainable investing assets



Source: Own composition based on Global Sustainable Investment Alliance Report, 2020

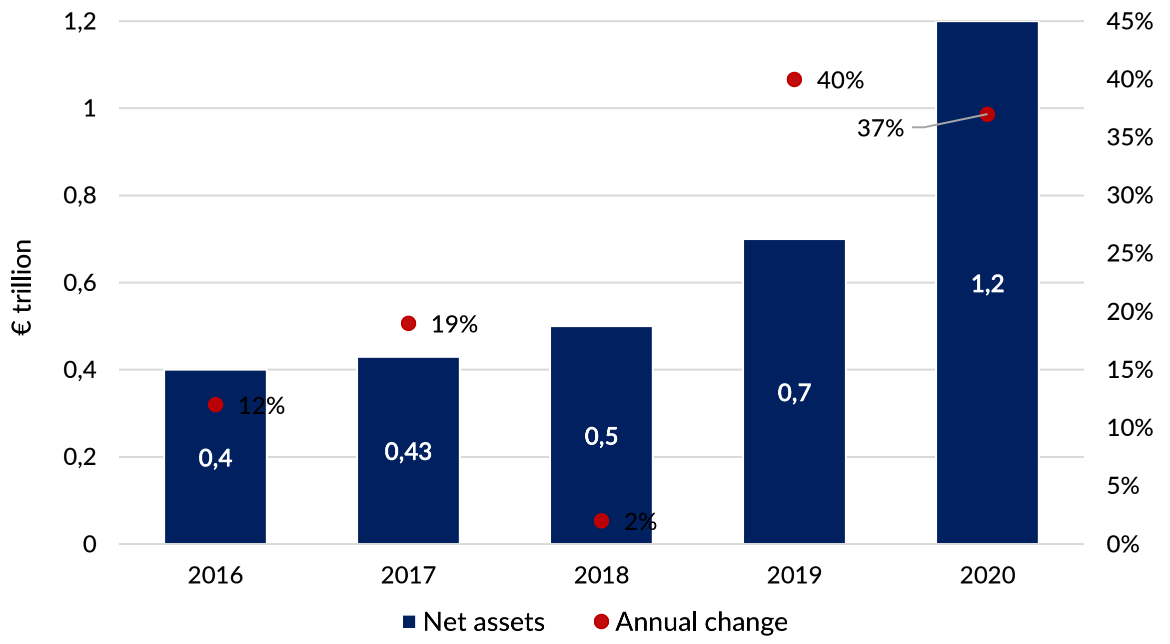
Figure 55. AUM of sustainable funds



Source: UNCTAD Sustainable Fund Market Report 2021, own composition

Additional explanations: The European data covers 18 European countries including UK, Norway, Switzerland, Liechtenstein. The data encompass several strategies previously covered by compiling the AUM of institutions that exercise ESG integration, exclusions and engagement but does not necessarily reflect in precise detail the distribution of assets managed under each of the sustainable and responsible investment strategies such as best-in-class, norms-based screening, and sustainability-theme investments.

Figure 56. Evolution of European ESG assets



Source: EFAMA Market Insights 2021, ESMA, own composition

Additional explanations: The analysis is only based on funds for which sustainability data are available. Going forward, sustainability integration should not be limited to sustainable funds. Instead, the whole fund industry needs to enhance its sustainability disclosure and performance and take actions to channel more investments. In order to address "sustainability washing" concerns, fully transparent self-reporting on the sustainability performance of funds, supported by external auditing and regulation will be needed.

Despite the surge in recent years, sustainable funds account for only about 4% of the global fund market in terms of assets.[117] Most of these funds are self-labelled, and the lack of consistent standards and high-quality data to assess their sustainability credentials and impact has given rise to greenwashing concerns and credibility issues.

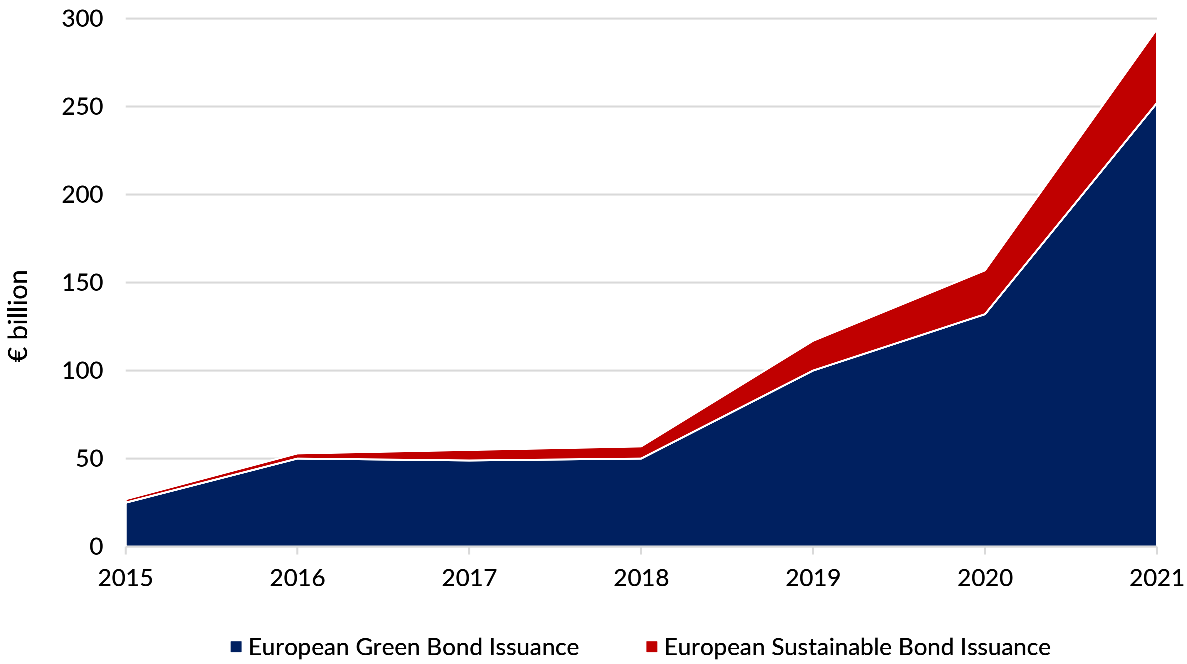
The lack of market transparency and international standards has given rise to greenwashing concerns and making an accurate assessment of the market remains extremely challenging. Also, ESG labels do not necessarily reflect a green investment focus. Therefore, clearer standards on green versus ESG products are needed to support the low-carbon transition. The absence of standardisation, transparent and consistent reporting and second-party verification of green bonds may also undermine trust and impede their market growth.

According to other third-party sources, for the same period, note that the largest share of sustainable funds was domiciled in Belgium, the Netherlands and Sweden,[118] which is hardly representative of the entire capital markets union. This information then cannot be relied upon as a key indicator for the performance of capital markets in relation to sustainable finance as not all participants are even considered.

[117] https://worldinvestmentreport.unctad.org/world-investment-report-2022/chapter-4-capital-markets-and-sustainable-finance/
[118] https://www.alfi.lu/getmedia/51edc18e-6e30-4de4-8564-ef74bef9ffd4/european-sustainable-investment-funds-study-2022.pdf

Note: These figures differ from other reports or other institutions due to a different coverage at different times of data extractions. Depending on the database used, not all funds domiciled in the EU and the selected European countries are considered. EU taxonomy and European Commission regulations on sustainability-related disclosures in financial services recently began implementation, shifting compliance on reporting and disclosure from voluntary to mandatory measures, but there are still growing concerns of greenwashing. As of March 2021, fund providers have begun to classify their funds according to specific sustainability parameters defined in particular in Article 8 and Article 9 of the SFDR Regulation which imply different disclosure requirements. Initial data shows that different approaches are used by fund providers, with some providers pursuing a more conservative approach with only a small portion of their funds marketed as Article 8/Article 9 funds, while others have already applied the new definitions to a larger share of their funds. The non-financial performance of sustainable investment products across ESG funds is yet to be developed as the availability of information that may be used to perform such an assessment is currently largely inadequate. Non-settled definitions and methodologies will be interpreted differently, and consequently ESG-related data may not be available homogeneously or used inconsistently, and classification or ratings of companies, financial instruments and funds may lead to inconsistent results from the perspective of the users.

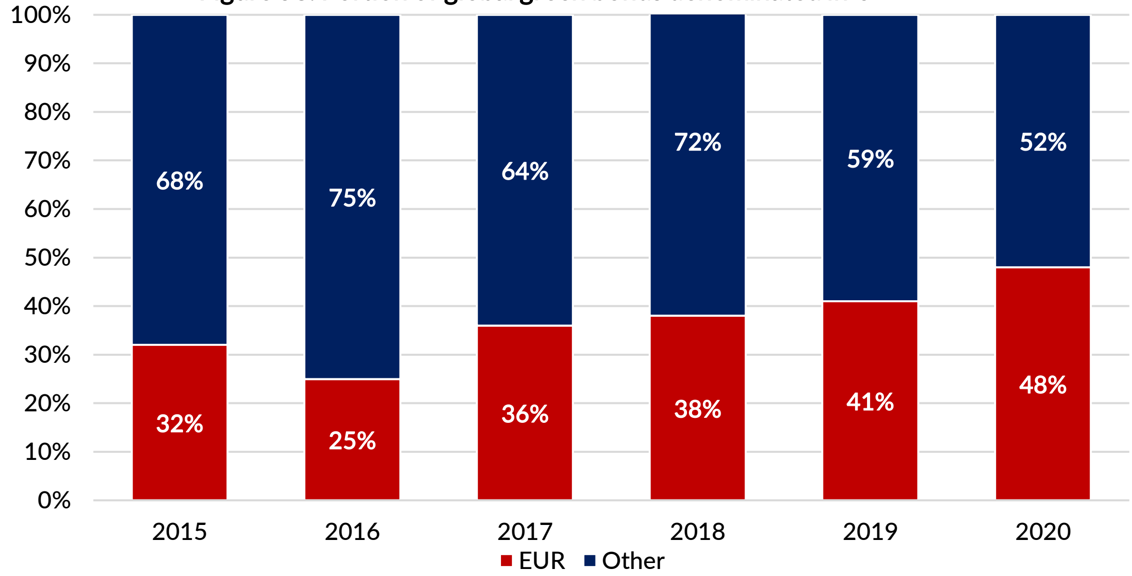
Figure 57. Green and sustainable bond issuance in Europe



Source: EFAMA Market Insights 2021, ESMA, own composition

Additional explanations: The European Commission's plan to issue up to €250 billion of green bonds between mid-2021 and 2026 as part of the EU recovery fund, NextGeneration EU, has the potential to further expand these markets. Europe remains a clear leader in the green bond market. Following the proposed Green Bond framework, the European Commission proceeded with the issuance of its first NextGenerationEU green bond in October 2021. The 15-year bond was more than 11 times oversubscribed, and the proceeds went on to finance the share of climate-relevant expenditure in the Recovery and Resilience Facility (non-repayable financial support and loans to member States to support public investments and reforms). Also in 2021, the United Kingdom (£10 billion), Italy (€8.5 billion) and Spain (€5 billion) issued their first sovereign green bonds, which attracted record investor demand.

Figure 58. Portion of global green bonds denominated in €



Source: Climate Bond Initiative 2021, own composition

Additional explanations: The 2018 European Commission Action Plan on Financing Sustainable Growth proposed the creation of an EU standard for green bonds. At the same time, sustainability-linked bonds and transition bonds are becoming more popular. In its 2021 Strategy for Financing the Transition to a Sustainable Economy, the Commission has announced that it will now work on transition and sustainability linked bond standards.

Jump back to KPI7.

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Fédération Européenne des Épargnants et Usagers des Services Financiers

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