



CAPITAL MARKETS UNION THE EU CITIZEN'S BAROMETER

“EU households are the main source for the long term funding of the European economy. This is why savers and individual investors must be placed at the heart of the CMU initiative”
(former EU Commissioner Lord Hill).

Better Finance thanks  **FESE*** for its contribution to the development of the CMU Barometer.

* Federation of European Securities Exchanges

WHAT IS THE CMU ABOUT FOR SAVERS AND INDIVIDUAL INVESTORS?



➤ ***Strengthen the link between savings and growth***

“Put simply, Capital Markets Union will strengthen the link between savings and growth.”¹

➤ Since *“households are the principal net savers in the economy”²*, the CMU aims to ***“boost retail investments into capital markets and enhance individual confidence”³***

➤ ***Provide better returns for savers and investors***

“(CMU) will provide more options and better returns for savers and investors.”¹

BF BETTER FINANCE

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

¹ EC CMU Action Plan, 2015

² EC staff working Document, CMU Green Paper, 2015

³ EC, GREEN PAPER, Building a Capital Markets Union, 2015

HOW TO GO ABOUT IT FOR EU SAVERS?



- **enhancing transparency (in particular on performance and fees)**
(EC, Action Plan on Building a CMU, 2015, action on P.18)
- **reviving equity culture**
 - *“the lack of an equity culture”* (EC CMU staff Document p.29)
 - *“Today, retail investors in Europe ... are less directly involved in capital markets than in the past ... the proportion of retail investors among all shareholders is less than half the level it was in the 1970s.”*
 - *“financial advisers are no longer marketing direct investment products (e.g. company shares and bonds) to retail investors”*
(EC CMU staff working document p.30, 2015)
- **promoting more standardised and simpler investment products,**
(EC, CMU Green Paper, 2015, P.20)
- **strengthening financial literacy** (EC, CMU Green Paper, 2015, P.20)

HOW TO MEASURE THE PROGRESS OF THE CAPITAL MARKETS UNION ?



→ the CMU Barometer ©

- To effectively manage the CMU initiative one needs to design and track KPIs (Key Performance Indicators)
- We try to select and track KPIs to measure the CMU progress for European savers and individual investors
- We also look at the key CMU actions identified by the EC for savers and investors and their progress

KEY CMU PERFORMANCE INDICATORS

1. **Equity Market Funding**
2. **SME participation in capital markets**
3. **Boost retail investments in capital markets**
4. **A revival of the Equity Culture**
5. **Better returns for retail investors**



CMU KPI 1



Increase Equity Market Funding vis-à-vis Bank Funding

The European Economy - ranging from SMEs to large corporations, from governments to households - is overly reliant on banks. The CMU project aims to change this situation and stimulate capital markets.

As a % of GDP, has the ratio of funding from Equity Markets increased vis-à-vis Bank Funding?



CMU KPI 1



Stock Market Capitalisation vs Bank Credit (% of GDP)

EU - 2013		US - 2013		EU - 2015
Equity Funding	Bank Credit	Equity Funding	Bank Credit	Equity Funding
75%	104%	136%	43%	83%

Sources: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_10_gdp&lang=en;
FESE + WFE Statistics

CMU KPI 2

Increase SME participation in capital markets

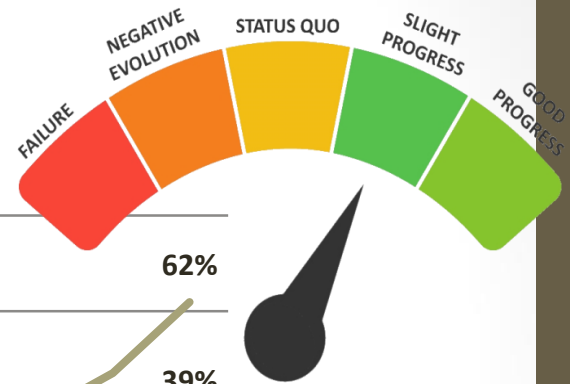
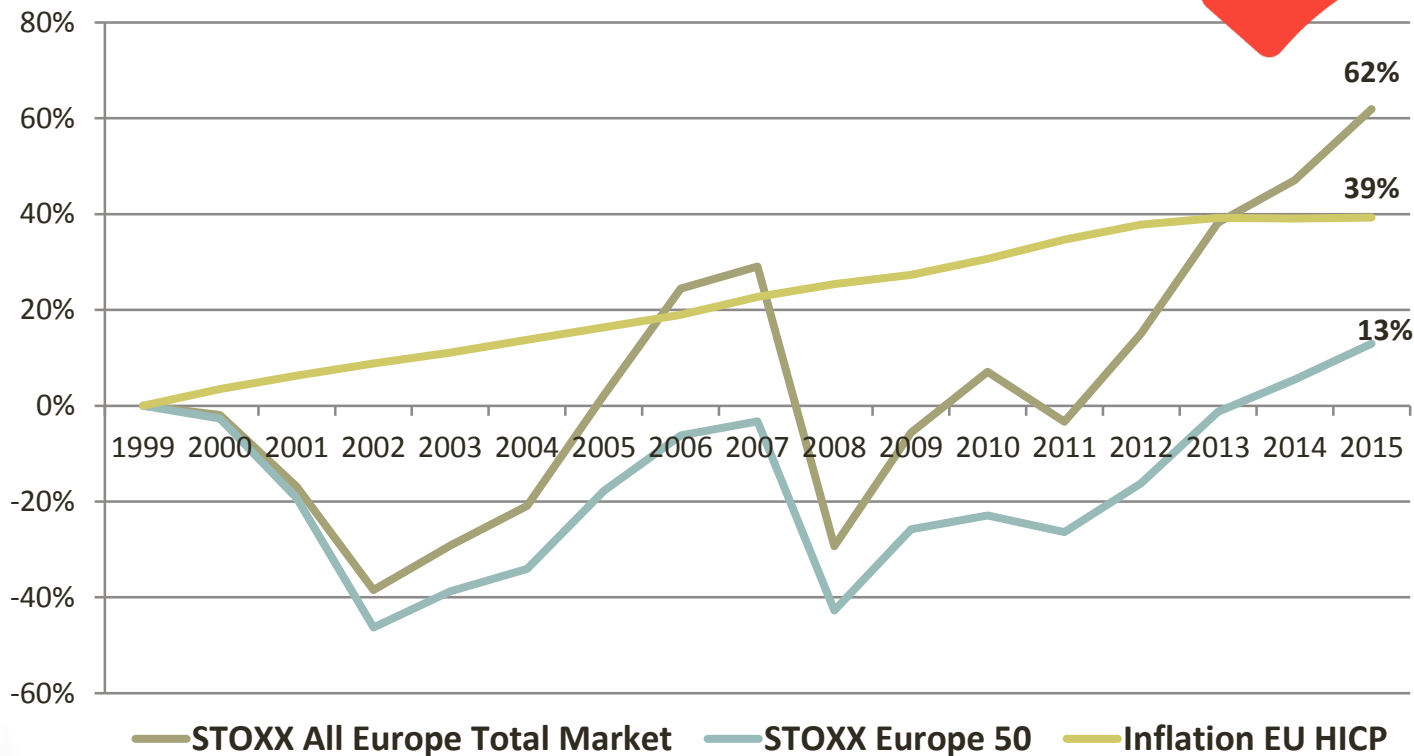
Limited capital market financing for SMEs and a heavy reliance on bank lending has made small companies vulnerable to banking system dynamics, with constrained access to lending arising in times of financial stress. The CMU project aims to help SMEs get better access to capital markets as a source of financing.

Is it easier for companies to raise money on public markets and has funding increased for start-ups and non-listed companies?



CMU KPI 2: WHY EU HOUSEHOLDS SHOULD BE ABLE TO INVEST MORE IN LISTED SMEs

European Equity market performance: broad market vs. big caps market 16 years (2000-2015)



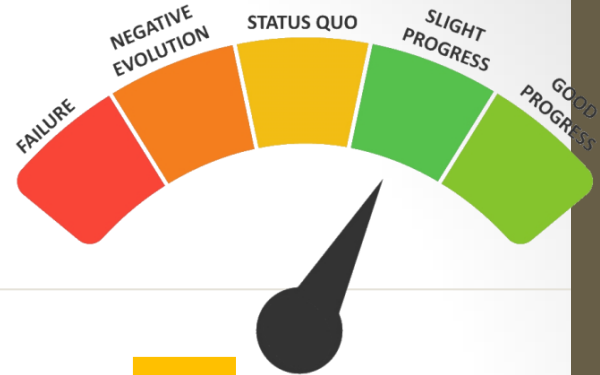
CMU BAROMETER ©

*Inflation used is HICP (2015 = 100), European Union 28. Monthly data index

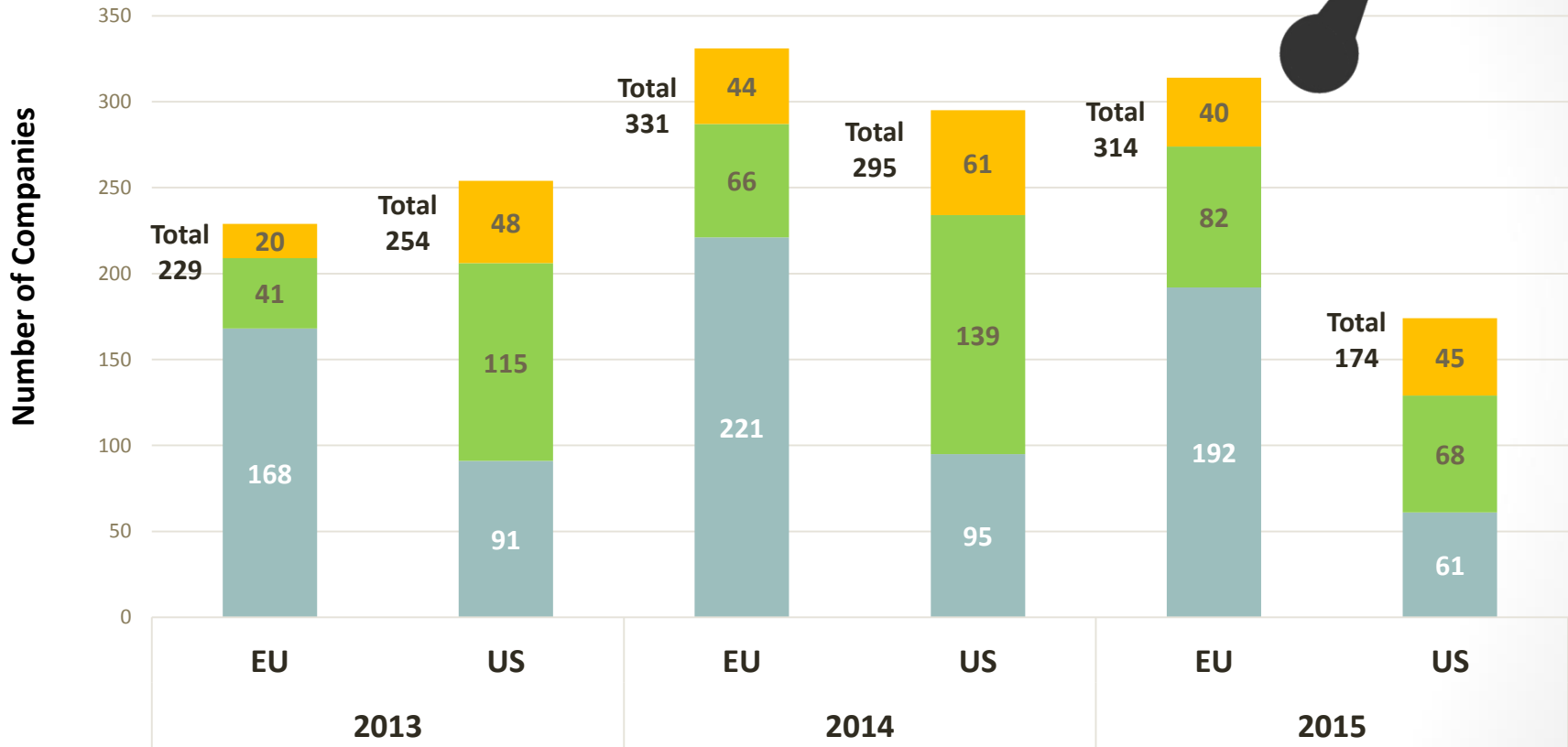
*MSCI Europe data used as proxy for 2000-2001 for STOXX All Europe Total Market

*Gross returns used for STOXX All Europe Total Market & Euro STOXX 50 except for Euro STOXX 50 1999-2000 (net returns)

CMU KPI 2



Number of IPOs per year



Market Cap ■ < 200M EUR Small Cap ■ 200M - 1bn EUR Medium Cap ■ ≥ 1bn EUR Large Cap

Sources: FESE members: FESE IPO Database / FESE non-members (LSEG): WFE IPO Database / US (NASDAQ and NYSE): WFE IPO Database

CMU KPI 3

Boost retail investments into capital markets

Whereas European households are indirectly invested in capital markets, there has been a decline of direct individual ownership of securities in Europe. The EC points 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”.³

Do retail investors start to invest more in capital markets and long-term securities and has direct share ownership by households increased?

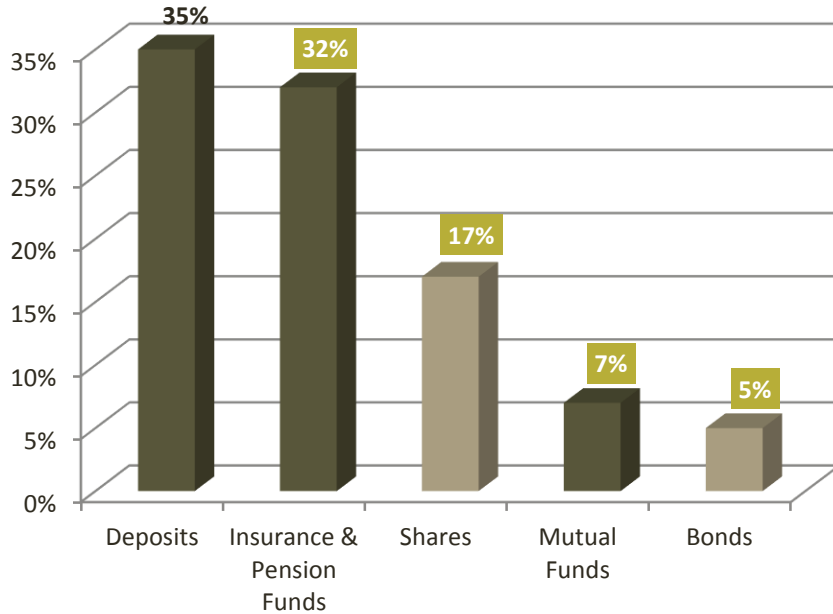
³ EC staff working document, CMU Green Paper, 2015



CMU KPI 3



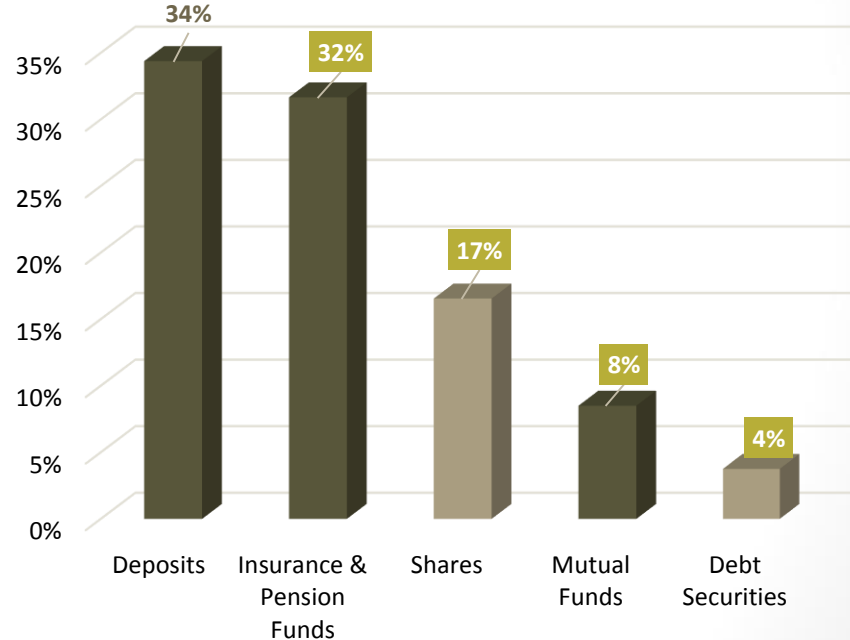
Figure 5: EU Household Financial Savings per Product Category - 2014



Share of "packaged" products = 74%

Share of Long Term investment products = 62%

Figure 6: EU Household Financial Savings per Product Category - 2016



Share of "packaged" products = 74%

Share of Long Term investment products = 62%

CMU KPI 4

Revive equity culture

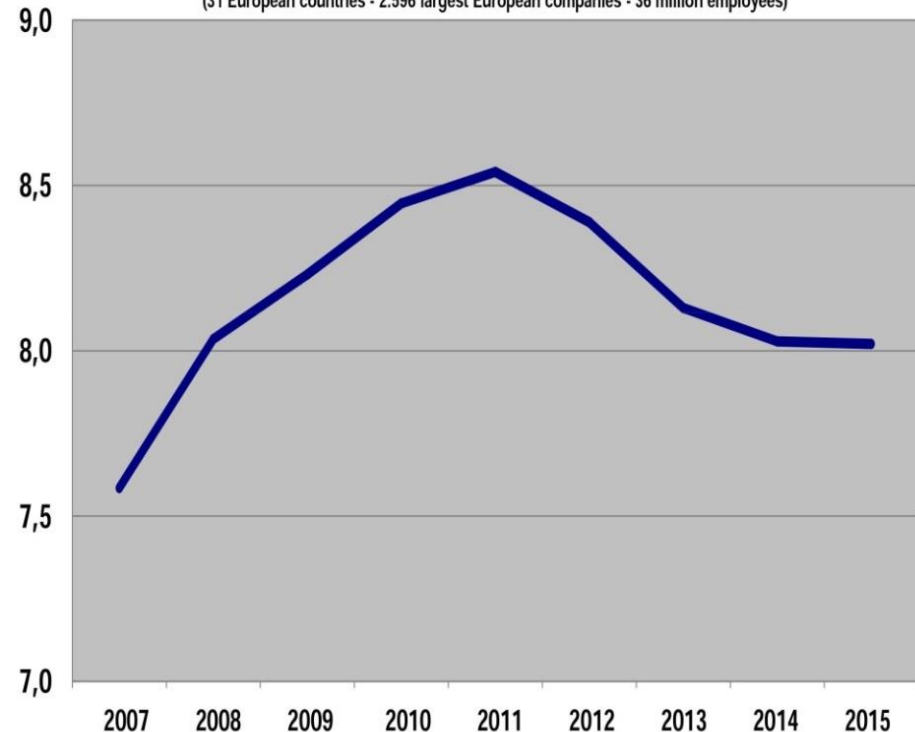
Employee Share Ownership is one important way to promote long-term and equity investment into the real economy. Following a continuous increase since 1980, the number of employee shareholders in Europe declined from 2011 onwards, partially due to the financial crisis but to a large degree because of a lack of policy incentives.

Has Employee Share Ownership increased?

Source: EFES, the European Federation of Employee Share Ownership



EMPLOYEE OWNERS IN EUROPEAN COMPANIES 2007-2015
in million
(31 European countries - 2.596 largest European companies - 36 million employees)



CMU KPI 5

“Help retail investors to get a better deal”

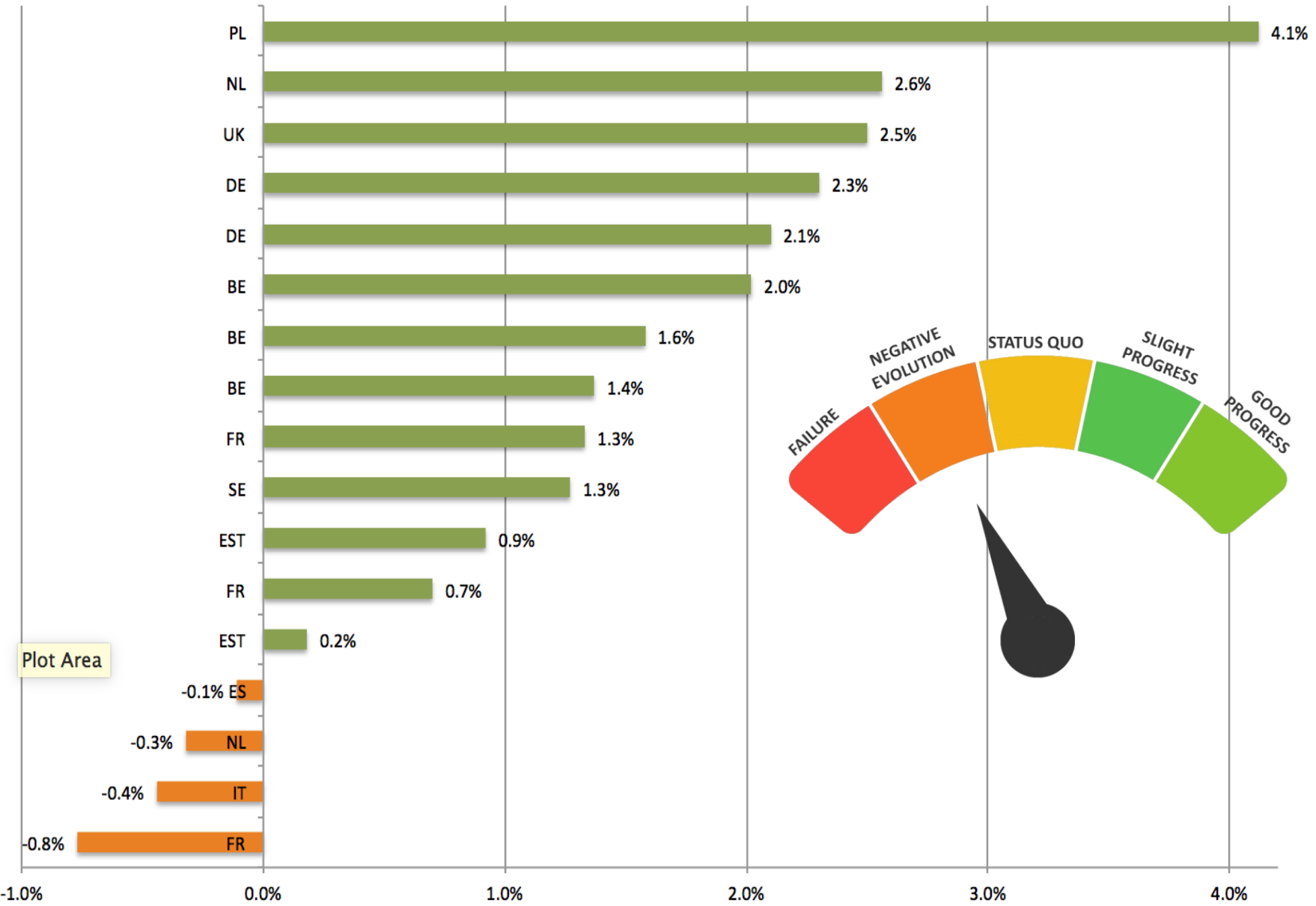
“Other reasons for not saving long-term are the often poor performance of financial intermediaries to deliver reasonable return, and costs of intermediation.” (EC staff working document, Long-Term Financing of the Economy, 2013)

EU Authorities must improve the transparency of the actual net performance of long-term retail investment products.

Is the situation for retail investors improving?



CMU KPI 5: SELECTED ANNUALISED REAL NET RETURNS OF PENSION SAVINGS (%)



Plot Area

KEY CMU ACTIONS FOR SAVERS AND INVESTORS






KEY ACTIONS ¹	CURRENT PROGRESS ASSESMENT	CMU BAROMETER [©]
1. Develop or support pan-European information systems based on best practices to facilitate SME investment and overcome barriers.	The CMU action plan aims to have a central database for <u>SME credit information</u> . However, this must go even further and allow for a central database for all SME listed companies' information, including a database for SME prospectuses.	The barometer is a semi-circular scale with five segments: FAILURE (red), NEGATIVE EVOLUTION (orange), STATUS QUO (yellow), SLIGHT PROGRESS (light green), and GOOD PROGRESS (dark green). The needle points to the 'STATUS QUO' segment.
2. Make it easier for companies to enter and raise capital on public markets by removing regulatory barriers and improving existing regulations.	The current proposal for a <u>Prospectus Regulation should be more ambitious</u> . There needs to be a fundamental review of the purpose and reason for publishing a prospectus. The Summary Prospectus must include key investor information such as recent earnings per share and stock price versus index.	The barometer is a semi-circular scale with five segments: FAILURE (red), NEGATIVE EVOLUTION (orange), STATUS QUO (yellow), SLIGHT PROGRESS (light green), and GOOD PROGRESS (dark green). The needle points to the 'SLIGHT PROGRESS' segment.

¹ ARRANGED IN THE ORDER OF THE CMU ACTION PLAN

KEY CMU ACTIONS FOR SAVERS AND INVESTORS



KEY ACTIONS	CURRENT PROGRESS ASSESMENT	CMU BAROMETER [©]
3. Support venture capital and equity financing and address the debt-equity bias, as part of the legislative proposal on the Common Consolidated Corporate Tax Base.	The First EC Status Report on the CMU states that a legislative proposal addressing the debt-equity bias is currently being prepared as part of the Common Consolidated Corporate Tax Base proposal.	
4. Support an investing environment for long-term, infrastructure and sustainable investment, including the adjustment of Solvency II calibrations.	Amendments for infrastructure projects and ELTIFs entered into force on 02/04/2016.	
5. Ensure consistency of the EU financial services rulebook based on evidence collected on the cumulative impact of financial reforms.	The Call for Evidence (Q3 2015) revealed 3 principal sets of concern including “insufficient proportionality in legislation” & “excessive regulatory burden due to unexpected interactions, duplications & inconsistencies.	

KEY CMU ACTIONS FOR SAVERS AND INVESTORS



KEY ACTIONS	CURRENT PROGRESS ASSESMENT	CMU BAROMETER [©]
7. The European Supervisory Authorities (ESAs) to analyse performance of actual net performance and fees of long term retail products to help retail investors get a better deal.	Not included in the 2016 work programmes of the ESAs nor in their draft 2017 ones. The PRIIPs RTS eliminated all disclosure of historical performance of investment products and their benchmarks.	
6. Help retail investors to get a better deal by assessing the EU retail investment markets.	Action not planned before 2018 (see KPI 5).	
8. Support saving for retirement and assess the case for a policy framework to establish Pan European Personal Pensions (PPPs).	Following an ongoing consultation on PPPs the EC aims to publish a proposal by Q4 2016. The creation of a standardised Pan-European Personal Pension is far more likely to succeed than trying to harmonise existing rules across the board.	

KEY CMU ACTIONS FOR SAVERS AND INVESTORS



KEY ACTIONS	CURRENT PROGRESS ASSESMENT	CMU BAROMETER®
9. Identify discriminatory tax obstacles to cross-border investment and remove barriers on a best practice basis.	The open consultation on the cross-border distribution of investment raises the issue for investment funds	
10. Strengthen supervisory convergence to improve the functioning of the single market for capital.	Mentioned as a priority in the ESAs annual work programmes, but their resources have been reduced.	

KEY CMU ACTIONS FOR SAVERS AND INVESTORS



KEY SUCCES FACTORS / OBJECTIVES IDENTIFIED BUT NO SPECIFIC ACTIONS SO FAR

KEY CMU SUCCES FACTORS (IDENTIFIED BY THE EC)	KEY ACTIONS
Revive equity culture	<p>???</p>
Promotion of equity ownership by households	
Promotion of Employee Share Ownership	



Other People's Money – 2015

« We need a simpler world ... in which short chains of intermediaries provide more direct links between savers and the assets in which their funds are deployed... And we need asset managers whom we can trust to hold our savings for the long term and build knowledgeable, enduring relationships with the companies in which they invest. »

(John Kay, Other People's Money, 2015)