



CAPITAL MARKETS UNION THE EU CITIZEN'S BAROMETER 2018 edition

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

(EU Commissioner Valdis Dombrovskis)

*"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).



“The CMU will not be successful if its design focuses solely on financial institutions’ needs. It must also add value for investors. Diversifying the funding of our economy can only be achieved if investors have an incentive to take part in this initiative.

It makes no sense to create a fully integrated market for professional investors and maintain a separate less efficient and less integrated market for retail investors.

The protection of investors should play a major role in building the CMU.”

Steven Maijoor, Chair of ESMA, speech “Investor Protection and an Integrated EU-Capital Market” at the BETTER FINANCE International Conference on “Shareholder Rights in Europe 2020”, 9 December 2014.

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

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 selected and tracked KPIs to measure the CMU progress for European savers and individual investors
- We also looked 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

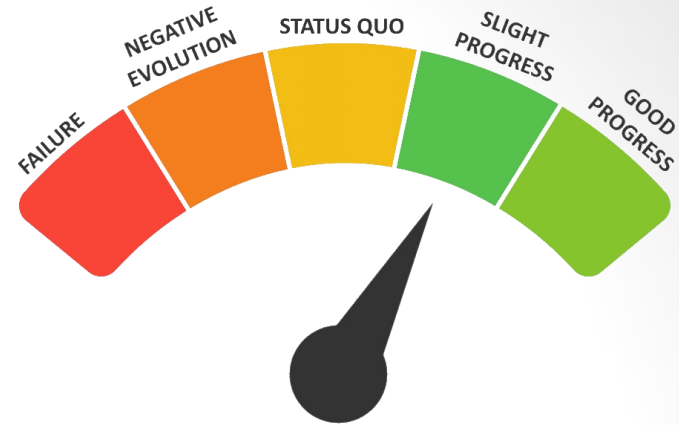
Increase Equity Market Funding vis-à-vis Bank Funding

The European Economy – ranging from SMEs to large corporations, from governments to households – is overly reliant on banks. The CMU project aimed 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	
Equity Funding	Bank Credit	Equity Funding	Bank Credit
75%	104%	136%	43%
EU - 2015		US - 2015	
Equity Funding	Bank Credit	Equity Funding	Bank Credit
83%	90%	136%	43%
EU - 2017		US - 2017	
Equity Funding	Bank Credit	Equity Funding	Bank Credit
88%	100%	166%	64%
EU - 2018Q1 (€ bln)		US - 2018Q1 (€ bln)	
Equity Funding	Bank Credit	Equity Funding	Bank Credit
11,797	15,962	n/a	10,255

Source: AFME; ECB;
US Federal Reserve; WFE

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 projects 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?

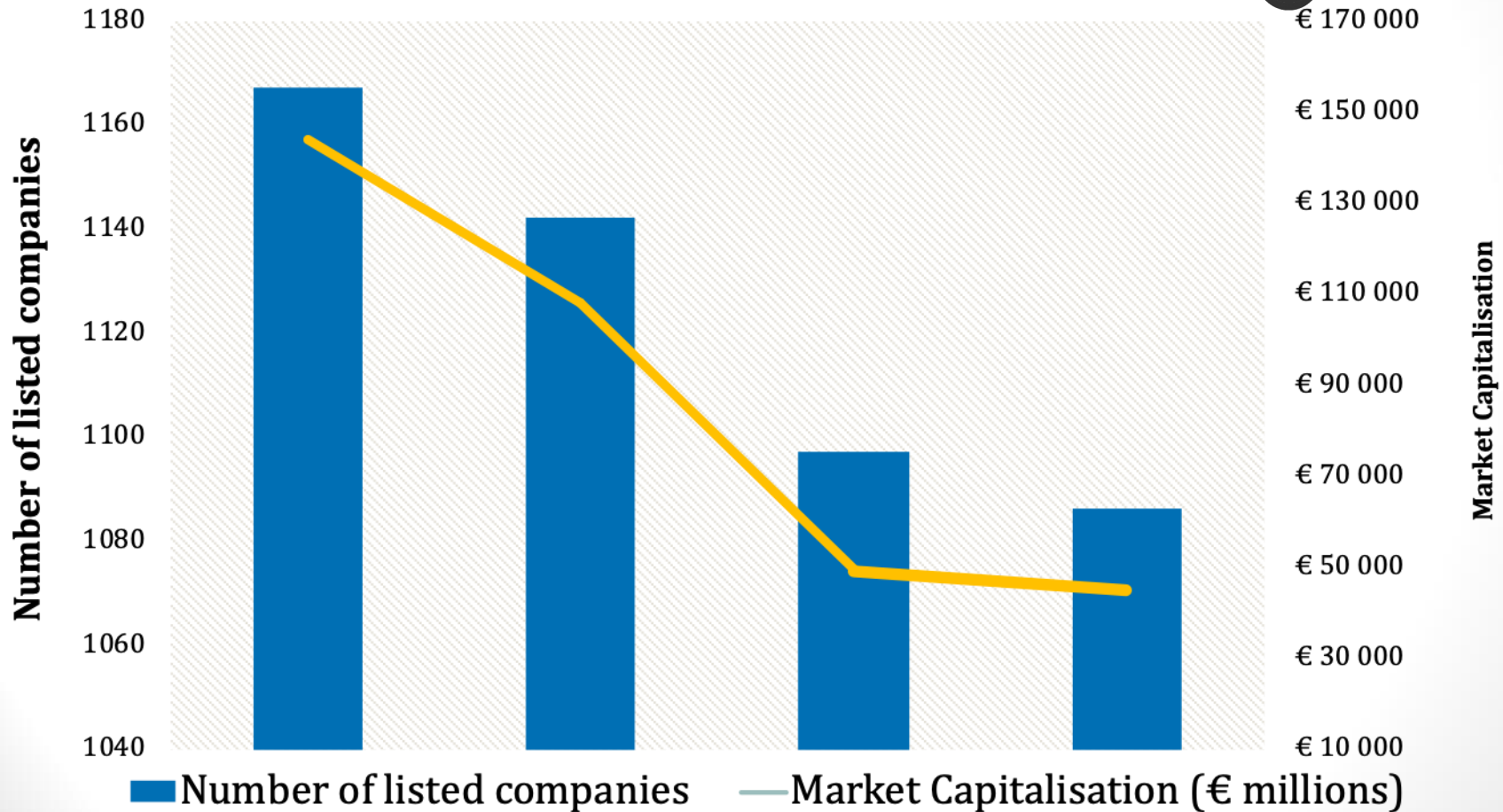
BF BETTER FINANCE

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



CMU KPI 2

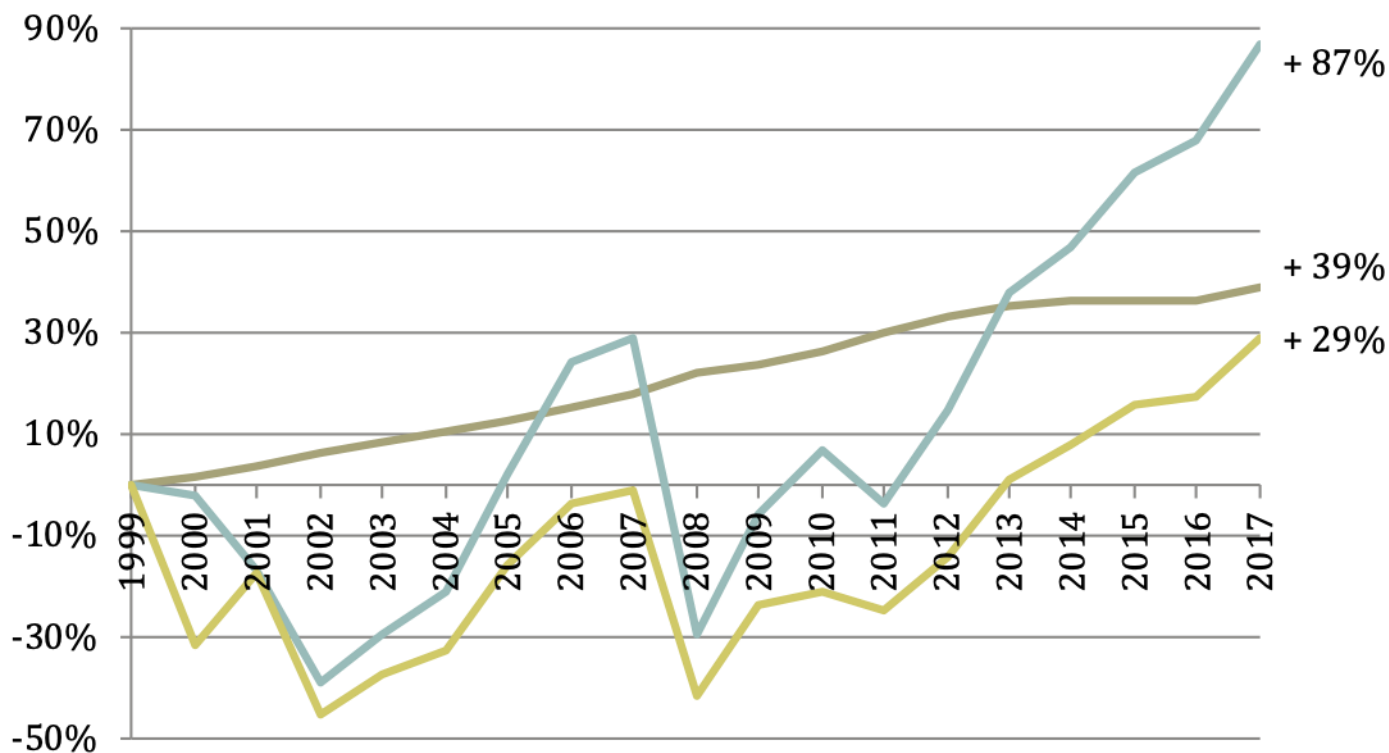
SME Markets in the EU*



* FESE Members; Source: FESE

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 18 years (2000-2017)



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

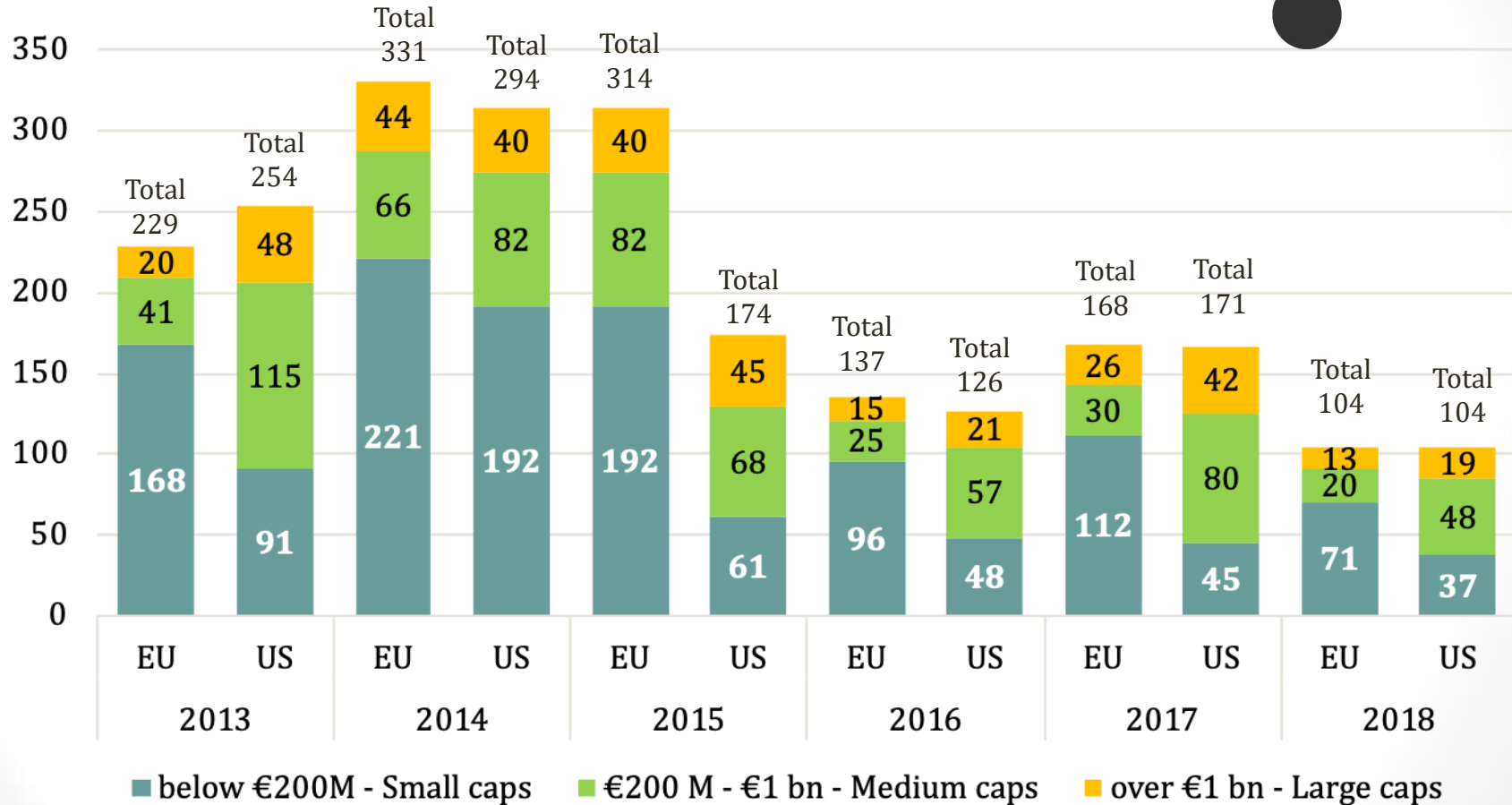
*MSCI Europe data used as proxy for 2000-2001 for STOXX All Europe Total Market

*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



Sources: FESE IPO Database; WFE IPO Database; *2018 is up to September for EU and for US last reported IPO is from 21/08/2018

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

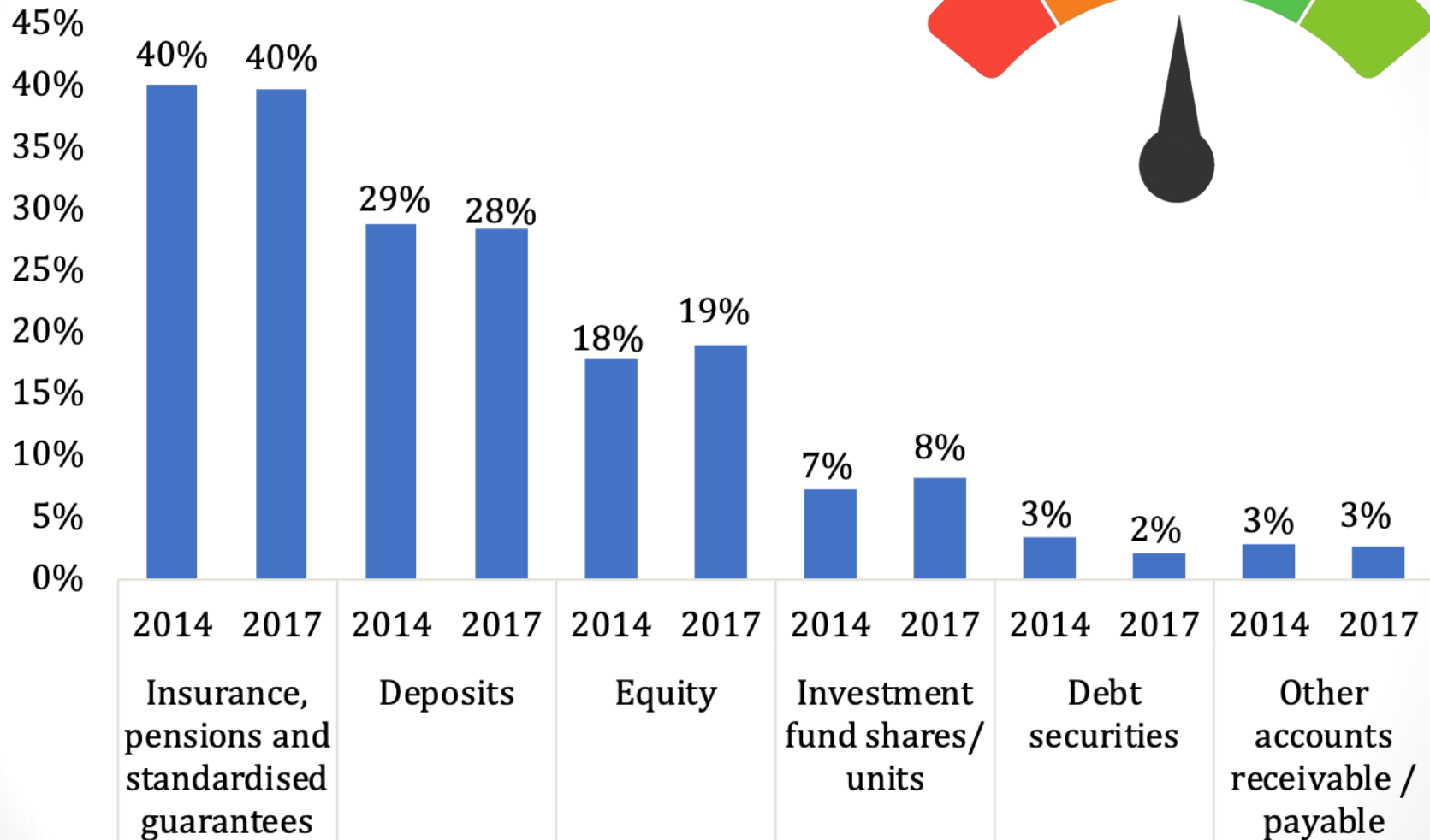
Do retail investors start to invest more in capital markets and long-term securities and has direct share ownership by households increased?

³ EC staff working document, CMU Green Paper, 2015



CMU KPI 3

EU households financial savings



CMU KPI 4

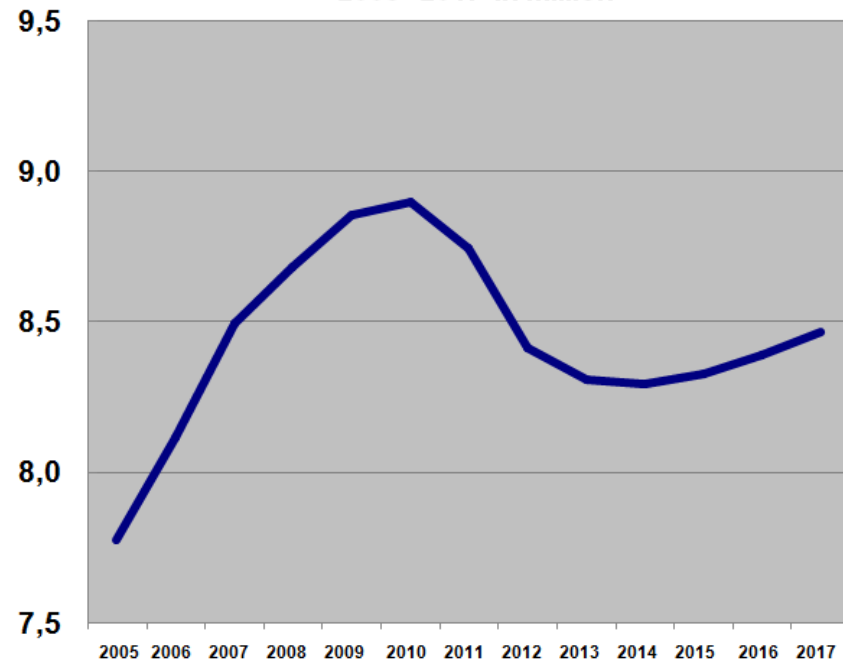
Revive equity culture

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?



**EMPLOYEE OWNERS IN EUROPEAN COMPANIES
2005 - 2017 in million**



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.

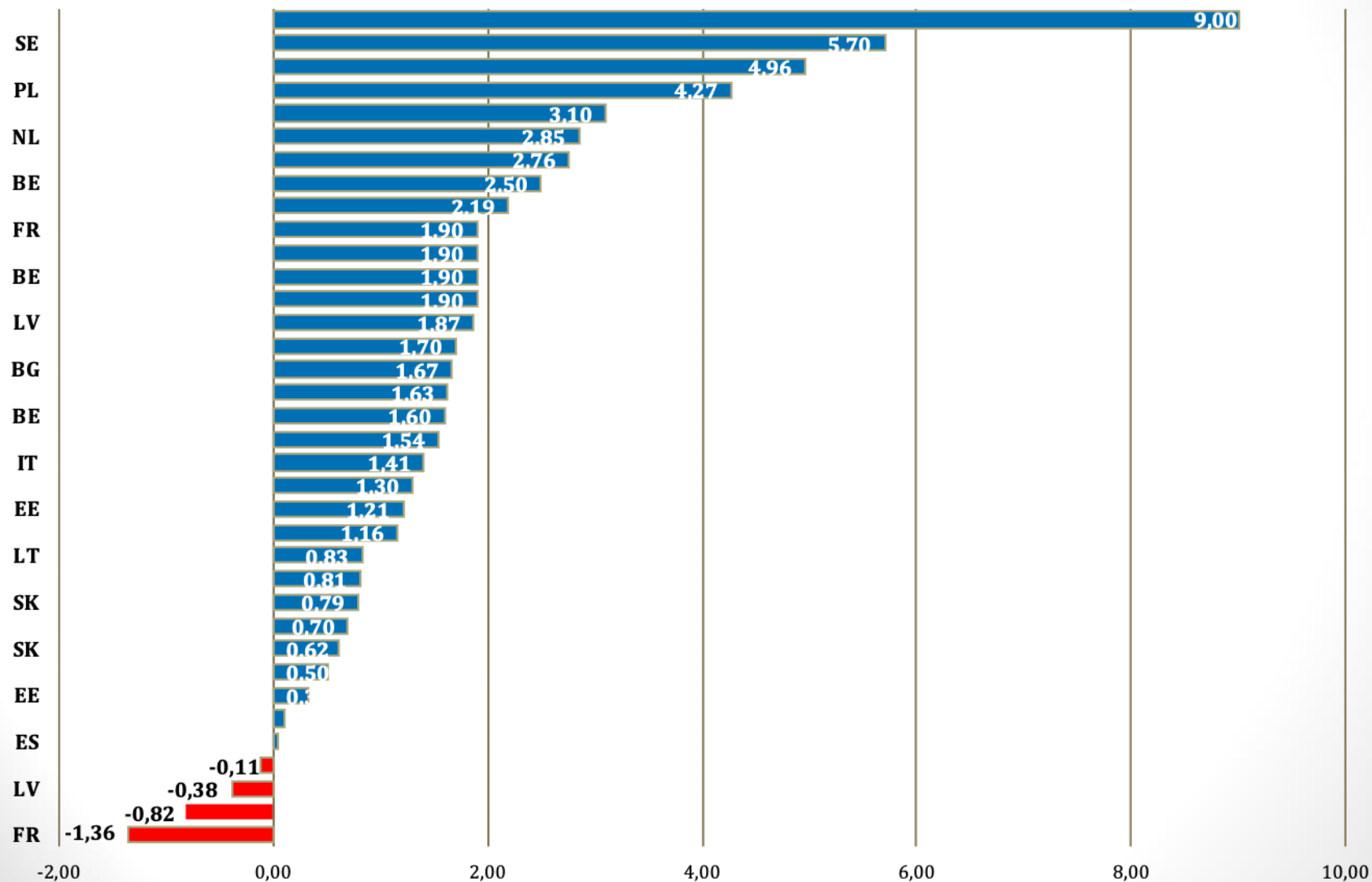
Is the situation for retail investors improving?



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



1999-2017

Annualized Real Net Performance



KEY CMU ACTIONS FOR SAVERS AND INVESTORS



KEY ACTIONS	CURRENT PROGRESS ASSESMENT	CMU BAROMETER®
1. 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. However, the development of ELTIFs is very small. The EC just proposed (11/2018) a better calibration for long term equity investments under certain conditions.	
2. 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®
3. 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.	<p>The EC' requested for the ESAs to issue recurrent reports on the cost and past performance in Q4 2017. No reports have been issued so far (2018).</p> <p>The PRIIPs Regulations eliminates all disclosure of long term historical performance of investment products and their benchmarks.</p>	
4. Help retail investors to get a better deal by assessing the EU retail investment markets.	<p>Contrary to what was planned in the CMU Action Plan the study published in April 2018 did not really identify ways to improve the policy framework and intermediation channels so that retail investors could access suitable products on cost-effective and fair terms.</p>	
5. Support saving for retirement and assess the case for a policy framework to establish Pan European Personal Pensions (PPPs).	<p>The EC made a proposal for a PEPP, which is now in "Trialogue" phase. The current "capital protection" proposed in the ECON report will seriously mislead consumers and may make the default option ("basic PEPP") not recommendable.</p>	

KEY CMU ACTIONS FOR SAVERS AND INVESTORS



KEY ACTIONS	CURRENT PROGRESS ASSESMENT	CMU BAROMETER®
6. Identify discriminatory tax obstacles to cross-border investment and remove barriers on a best practice basis.	The EC published a code of conduct on withholding tax early 2018, but the willingness of Member States to implement this non-binding document is questionable.	
7. Strengthen supervisory convergence to improve the functioning of the single market for capital.	The ESAs Reform gives an opportunity for the strengthening of supervisory convergence and the EP ECON compromises concerning the consumer-related provisions are quite good, but the Council may destroy all the improvements achieved by the EC and by the Parliament.	

KEY CMU ACTIONS FOR SAVERS AND INVESTORS (2017 ADDITIONS)



KEY ACTIONS	CURRENT PROGRESS ASSESMENT	CMU BAROMETER®
8. Develop best practices on Investment Savings Account based on Member States experience	There have been no best practices published and promoted by the EC so far	
9. Develop best practices on Employee Share Ownership schemes, based on Member States experience	There have been no best practices published and promoted by the EC so far	



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)