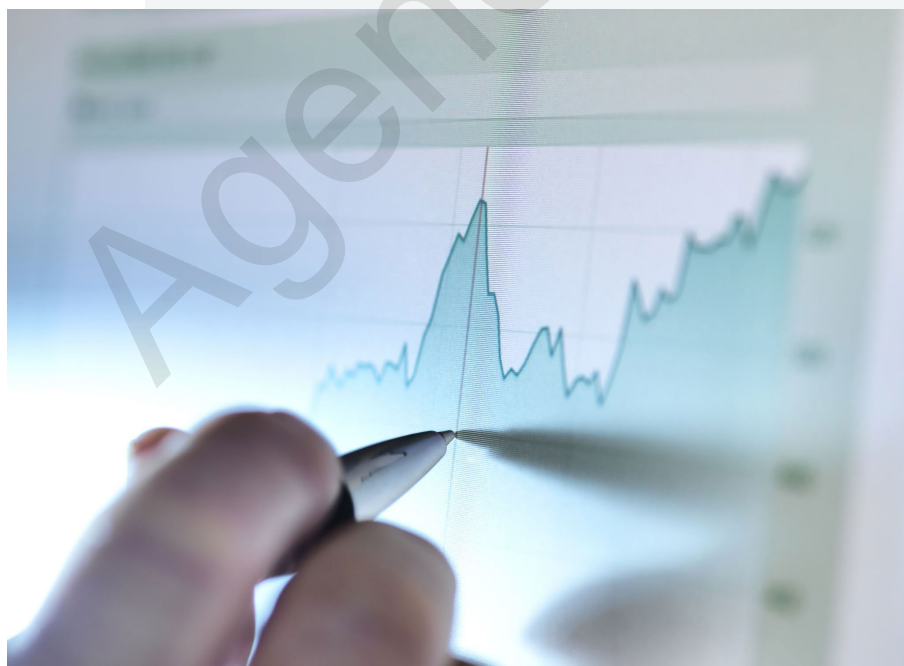


Discussions in Financial Services Committee (FSC)

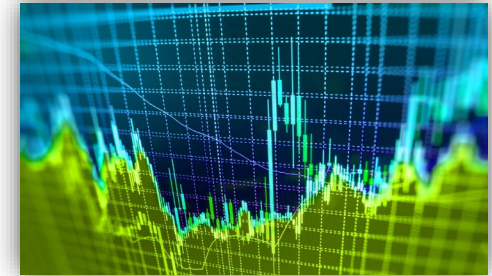
The Eurogroup+ called for information on the national initiatives meant to deepen capital markets. The FSC organized thematic discussions to exchange best practices on the following topics:



- 1. Sustainable finance**
- 2. SME reporting**
- 3. Equity financing and consolidation**
- 4. Securitisation**
- 5. Investment, savings, pensions and financial literacy**

1. Sustainable Finance

March 2024 EG+ Statement called on Member States “to step up their efforts in supporting market participants in the uptake of sustainable finance tools and to address national barriers which slow down the use of the common EU framework”.



a) Sustainable Finance Disclosure Regulation (SFDR)

- MS acknowledge crucial role but point to a **number of deficiencies**:
 - data unavailability (generating high costs) against excessively granular reporting obligation
 - inconsistency with other EU sustainable finance legislation (Taxonomy, Benchmarks, CSDR)
 - absence of *de minimis rule*
 - lack of a material definition of “sustainable finance” and use of Articles 8 and 9 as labelling schemes
 - need for a dedicated treatment of transition activities
- **Suggestions for improvements**:
 - support on data availability and data-processing, especially for SMEs, at Union and national level
 - clarification for SFDR products disclosing under Article 8 and 9:
 - a) replacement by three categories (sustainable products, low-impact products and transitional products); or
 - b) limited number of KPIs
 - sustainability preferences under MIFID and IDD to be aligned with new SFDR concepts
 - update of the Key Investor Document (KID) under the current Retail Investment Package
 - removing inconsistencies and overlaps on the disclosures of Principal Adverse Impacts with other Union legislation (taking into account CSDR)
 - simplification of existing disclosure templates when amending Articles 8 and 9

b) Green bonds issuance

- Increasing in the EU – 16 MS with sovereign issuances at national, 9 at subnational level
- Almost all MS follow the ICMA Principles; 8 MS also report having regard to EU Taxonomy
- Only 3 MS have plans to issue the European Green Bond Standard (EuGB), with further 3 indicating interest in issuing; **the main difficulties include:**
 - difficulty of applying EU Taxonomy to sovereign issuances, hence a general lack of eligible projects
 - lack of available data to demonstrate compliance with the DNSH principle
 - lack of external reviewers ready to check EuGB alignment and high cost of their service
 - requirement to publish a prospectus (sovereigns excluded)
 - heavy post-issuance requirements
 - no cost advantage (i.e. no or only a marginal greenium) in issuing green bonds
- MS point to negative experience at national level due to for example lack of financial incentive to issue green bonds compared to non-green bonds; overall low issuance frequency of bonds, limited investment opportunities, high tax and borrowing rates, and geopolitical uncertainties. High administrative costs, low data availability and risk of greenwashing are also of concern.

c) EU Taxonomy

- Member States report that EU Taxonomy framework is mostly used by the private sector (which has reporting obligation), but other actors (both lenders and investors) out of scope of EU regulation apply Taxonomy on a voluntary basis



- **Best practice at national level to promote EU Taxonomy beyond mandatory use:**
 - national label for green financial products with voluntary bonus for Taxonomy-aligned assets
 - exemptions for interest expenses for infrastructure projects not harmful to climate
 - significant contribution criteria of the Taxonomy used to define green investments and progress regarding companies' sustainability
 - DNSH criteria used to harmonize risk-management practices
 - green preferential capital requirement programme for credit institutions, which uses EU Taxonomy
 - National Promotional Banks offering preferential financing for companies that are planning investments with significant contribution to environment and climate according to EU Taxonomy
 - credit institutions updating its green bond framework to align it with Taxonomy or earmarking loans
- However, actors perceive the requirements as too complex and administratively burdensome (and costly); and technical screening criteria as too ambitious, while not covering enough activities (some important sectors are not yet covered). In several MS companies are reporting under EU Taxonomy in different ways, which makes it hard to assess and compare results.
- **Suggestions for improvements:**
 - defining a Taxonomy that is straightforward, aligned with what is defined in non-EU contexts
 - covering all economic sectors (e.g. mining, processing, transformation of critical raw materials)
 - simplified framework for SMEs
 - common definition for green loans (based on Taxonomy and simplified for families and SMEs)
 - adjustment of Green Asset Ratio (GAR) to better appreciate banks' support to climate transition
 - comprehensive information repository at national level detailing each economic activity
 - creating an FAQ and other supporting tools for interpretation of technical screening criteria
 - establishing a digital platform at EU level for verification, monitoring and reporting

d) Corporate Sustainability Reporting Directive (CSRD)

- replies less exhaustive as MS were only obliged to transpose the CSRD by 6 July, and because of deferred and sequenced start of application
- a few **transposition challenges** have been identified:
 - increased administrative burden, in particular for companies previously not subject to NFRD
 - possibility of providing for Independent Assurance Service Providers (IASP) when transposing
 - inconsistency in reporting requirements with the SFDR, Taxonomy and Corporate Sustainability Due Diligence Directive (CSDDD) frameworks
 - while credit institutions are subject to CSRD, a number of their clients (non-listed SMEs) are not
 - issues with the single electronic reporting format
 - absence of common supervision and harmonized sanctions for the violation of the CSRD
- MS consider that there is a need for Commission's Q&A and guidance by EFRAG, ESMA and EBA to clarify certain provisions and further streamlining of reporting/disclosure templates. The Commission might also consider an inquiry on the quality and accessibility of reliable information from proxies.

e) Sustainability in banking and insurance

- very limited scope of **ESG-related bank offerings** in the EU, with the situation greatly depending on individual banks' initiatives (variety of types of ESG-related products)
 - the majority of banks use internal classification systems to define green loans, and those systems apply the EU Taxonomy only in part

2. Comparability of SME reporting for CMU

March 2024 EG+ Statement called on the Commission “to further harmonise accounting frameworks in a targeted manner to enhance cross-border comparability of available information on companies, without increasing administrative burden, to allow in particular small and medium-sized businesses (SMEs) and other non-listed firms to better benefit from the new European Single Access Point (ESAP) and thus facilitate investment in those companies”, and to that end “to consider making appropriate proposals, including with regard to the development of a voluntary IFRS-light regime for SMEs”.

3 possible approaches presented by the Commission:

Amendment to Accounting Directive 2013/34/EU

3

To further harmonise elements of nGAAPs with useful information for cross-border investors

- **Least favorite option**
- Directive allows for flexibility – financial reporting thus not easily comparable
- High costs and administrative burden

Endorse IFRS standard for SMEs or set up own standard

2

To take into account the situation of SMEs and unlisted companies

- **More MS support**
- Has to be voluntary
- Risk of duplication due to voluntary nature
- nGAAPs still needs to apply to tax information

Voluntary filing of KPIs and other information on ESAP

1

To provide key information of particular interest to cross-border investors

- **Most MS support**
- Important to carefully design KPIs to ensure comparability of data and define the scope of companies
- Parallel reporting system to accounting framework

3. Equity financing & consolidation

March 2024 EG+ Statement called on the European Commission and Member States “assess and, if appropriate, address obstacles that could hinder mergers and acquisitions or other forms of integration of market infrastructure, including stock exchanges, with the view to strengthening European centres of expertise”. Member States are invited to “investigate ways to reduce the debt equity bias (for example through their national tax systems) and share best practices and plans to address this bias”, with the support of the European Commission. The Commission, in cooperation with Member States, should also “assess the impediments, including of a regulatory nature, to cross-border investment, especially in the EU equity market, by institutional investors, including pension funds and, based on this assessment, consider ways to tackle the impediments”.



a) Debt-equity bias in taxation

- The main and most common instrument currently used for this purpose is **taxation**:
 - limiting interest deduction on loans or debt from the tax base - many MS have applied the Anti-Tax Avoidance Directive (**ATAD**), which disallows any interest deduction beyond specific thresholds
 - allowing firms financed through equity to **deduct a notional interest** from taxable income (thus reducing effective tax rate)
 - having a corporate income tax system that is neutral to the type of funding by **taxing profits at the distribution stage**
 - having **sector-specific rules** for banks and insurance companies
- Based on the experience reported, it is **difficult to conclude whether these measures were effective** in increasing equity holdings

b) Tax incentives for institutional investors

- Tax incentives vary across Member States, with some offering favorable tax regimes and others maintaining a neutral tax environment
- Some examples include:
 - Tax exemptions or reduced rates on **income from dividends and capital gains**
 - Tax rebates or deductions on **annual contributions to pension savings and retirement plans**
 - Exemptions from tax for investment funds, with **only dividends** paid out being taxed
 - Lower tax rates or tax **exemptions on income distributed from pension funds** under certain conditions
- A **central design difference** seems to be whether institutional investors are exempted from tax and only the dividends they pay out are taxed or whether the institutional investor is taxed but the income shareholders received from them is not taxable
- Some Member States mentioned **indirect taxation effects**, including a) pension funds' possibility to deduct transfers to reserves, resulting in little taxes actually paid; b) employers' possibility to deduct their contributions to employees' pension plans from their taxable income, supporting the investment in pension funds and indirectly their investment in equity
- Overall, information on the effectiveness of tax incentives in increasing equity holdings is scarce (and uncertain), with **few Member States reporting positive outcomes**
- Many Member States noted the **challenges in measuring the impact on the public budget**

c) Restrictions on equity investments/ institutional investors

- 21 Member States reported **restrictions on equity investments** by institutional investors
- Most Member States **reported restrictions in line with EU prudential regulations**, such as Solvency II for insurers, UCITS/AIF for investment funds, and CRR for banks. For insurers and pension funds Member States also mentioned the prudent person principle which is included in Solvency II and in some transpositions of IORPS.
- Examples of **constraints at the national level**:
 - Specific investment limits for pension funds and restrictions on indirect investments
 - Ceilings on foreign currency investments for pension funds
 - Restrictions on eligible asset classes for special pension funds
 - Investment limits for insurance companies in addition to Solvency II requirements
 - Restrictions on eligible assets for special investment funds available for retail investors
- **Motivations for such restrictions** may include ensuring diversification and risk management, protecting investors, and maintaining financial stability.
- Most Member States **do not plan to change existing restrictions** or find them not relevant, indicating a general satisfaction with the current regulatory framework or a lack of pressing issues that would necessitate changes.
- Where **concerns** are raised, they are **communicated through appropriate channels** such as industry associations or ESMA
- MS generally do **not see a role for the EU** in addressing national restrictions on equity investments by institutional investors or find the EU's role irrelevant

d) Consolidation

- While **MS** seem **open to explore solutions**, some **question the benefits of reform in this area**, given that consolidation already happens, that it may pose challenges to local financial markets and that consolidated post-trade market infrastructures would still need to cope with national specificities
- Several MS called for **more in-depth analysis** and cautioned against seeing consolidation as a goal in itself, e.g. one Member State saying that this would have potential negative effects on competition
- One suggestion was to **limit the follow-up to certain market segments** such as venture capital when exploring possible tax incentives at EU level
- Several MS raised **concerns regarding fostering consolidation**, called for more analysis and preferred a market driven approach. Some mentioned that in particular retail investors would trust more in – and SMEs would rather want to use - local infrastructures.
- Some MS suggested **interoperability** as a possible solution to be explored as an alternative to consolidation
- On supervision, several MS saw **regulatory convergence of market infrastructures** as the appropriate way forward, while some Member States called for more central supervision



4. Securitisation

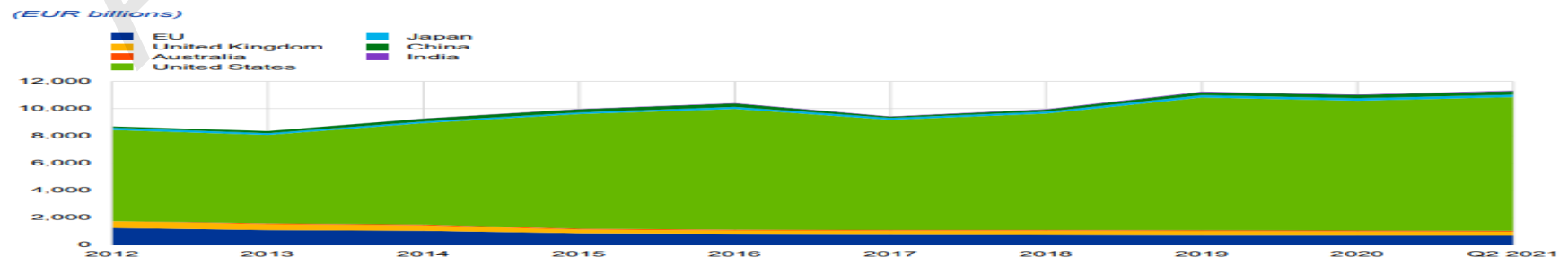
March 2024 EG+ Statement called on the Commission “to comprehensively assess all the supply and demand factors holding back the development of the securitisation market in the EU. This assessment should cover, inter alia, the adequacy of our toolbox, including the prudential treatment of securitisation for banks and insurance companies and the reporting and due diligence requirements. The European Commission should consider coming forward with corresponding proposals, taking into account international standards.”



a) Analytical work

- **Performance and regulatory framework:** Member States examined a comparative analysis of the regulation and performance of securitisation in the EU, the US and other key third countries. The differences in the regulatory framework remain significant. Furthermore, data show that US markets have recovered to pre-Great Financial Crisis (GFC) while EU markets for cash securitisation have stagnated and continue to underperform.

Chart 1b
Development of securitisation volumes by country (2012-Q2 2021)



Sources: AFME, Japanese Securities Dealers Association, National Australia Bank, Bloomberg, People’s Bank of China, Royal Bank of Australia Financial, IMF and ESRB calculations.

- **Markets’ structure:** however, Member States also acknowledged that markets have followed diverging paths partly due to their different structures. Post GFC, synthetic securitisation has grown in the EU as banks increasingly resorted to it for capital relief. RMBS issuance has dropped because banks have shifted to covered bond issuance for liquidity. By contrast, US securitisation market is dominated by government-sponsored agencies (GSAs).

b) Conclusions and way forward

- Review of the securitisation framework:

- Member States considered appropriate to examine whether there are obstacles in the EU regulatory framework for securitisation that could be removed or alleviated to facilitate the market's growth.
- However, Member States are very adamant that any changes to the EU securitisation framework should not be to the detriment of financial stability and should reflect the underlying risk.

- EU securitisation platform:

- While acknowledging the different market structures, Member States noted that the promotional and standardisation roles of GSAs had contributed to the growth and depth of US securitisation markets.
- Accordingly, Member States showed willingness to explore the convenience of securitisation platforms or other similar initiatives in the EU that would encourage standardisation and sound standards.
- However, Member States expressed scepticism towards an EU-sponsored platform underpinned by public guarantees.

- Scope:

- An eventual reform of the securitisation framework should have a broad scope and consider all relevant factors, both on the supply and demand sides.
- For instance, the extent to which regulation dissuades the participation of insurers and asset managers in the market; and whether securitisation is subject to proportionate transparency and due diligence requirements, in particular when compared to covered bonds.

- Purpose

- Member States agreed that an eventual reform of the EU securitisation framework should be linked to the objectives of CMU and other relevant policy areas (green transition, SME lending).

5. Investment, savings, pensions and financial literacy

March 2024 EG+ Statement:

10. Create an attractive, easy-to-use and consumer-centric investment environment, including easy-to-use and secure digital interfaces developed by the industry, and provide incentives to citizens to encourage them to make better use of the opportunities of capital markets. Member States are invited to assess ways to make their respective personal income tax systems more supportive of investments in capital markets. Notably, Member States should review the tax treatment of long-term retail investment products and of capital gains and losses. [...]

11. Support sufficient complementary income streams for an ageing population through wider use of longer-term savings and investment products, including through occupational and personal pension schemes. [...]

Member States are invited to assess the availability of products for their citizens on the occupational pensions market and share best practices, including on how to better enroll citizens in occupational pensions. We invite the European Commission to inform Member States' efforts by identifying and proposing best practices.

Member States are also invited to develop pension tracking systems to provide citizens with an overview of their future retirement income, where needed, based on input from the European Commission. The European Commission is invited to develop a pension dashboard, in collaboration with the European Insurance and Occupational Pensions Authority and Member States, to follow the evolution of pension coverage across Member States and to report back to Member States on developments.

12. Facilitate the strengthening of an investor/shareholder culture among EU citizens to increase retail participation.

Member States are invited to create initiatives to improve financial literacy among citizens as well as SMEs, combined with targeted initiatives to create more interest in long-term wealth-creation through investing. The European Commission should promote a regular exchange of best practices among Member States integrating the joint EU/OECD financial competence frameworks in specific financial education measures aimed at building a better understanding of market-based investment opportunities. [...]

13. Develop attractive cost-effective and simple cross-border investment/savings products for retail investors.

We invite interested Member States and the European Commission to examine the potential of developing a framework for a common cross-border market based investment/savings product for citizens and assess its impact. Such product could also be aimed at young citizens, offering them early hands-on capital market experience through mechanisms such as a programmed monthly contribution and a diversified allocation by default.

a) Retail investment

Fiscal incentives (in a majority of MS):

Minimum holding periods vary (nil / 5- 15 years / until 60-years-old)

Capital gains treatment: full or partial exemption; or time-bound

Contribution limits (nil / yearly 5-40 k€ / scheme-long 19-200 k€)

Eligible investments: broad variety, but few geographic restrictions

Take-up, changes and developments:

Success stories: numerous cases, but little data reported – role of external factors?

Many new schemes or adjustments: e.g. higher maximum deposit, new types of accounts / funds

Fiscal impact: few reported figures, but caution from cases of negative impact on national budget

Way forward – MS preferences:

Among 3 options: EU legislation; Commission Recommendation; best practices for MS to consult

Majority of MS prefers third option (best practices), several open to Recommendation;

Very few support EU legislation introducing pan-EU label (minimum conditions) with related tax treatment – different national regimes perceived as too complex to harmonise; negative experience with PEPP; ...

Focus on best-practice sharing: more transparency (EU website?); minimise bureaucracy and foster collaboration across MS; study of best practices necessary prerequisite to possible more ambitious steps

b) Retail investment products

Alternatives for possible EU legislation:

pan-EU label for a new retail product or pan-EU investment and savings account?

Either option is supported only by a minority of MS

Skeptical majority stressed:

- risk of interference with MS tax regimes
- likely confusion for retail investors from additional EU product or account

Alternative suggestions from MS:

- exchange of best practices (cf. previous slide)
- simpler rules on marketing / distribution rules of specific products
- possible ESMA guidelines as a blueprint for an EU label
- inter-governmental approach among “willing” Member States

Work on a PEPP review?

- Majority of MS supports revision of PEPP framework in general (to make it more attractive)
- But mixed views on relevance to objective 13 of EG+ statement: « *Develop attractive cost-effective and simple cross-border investment/savings products for retail investors* »:
- Some MS would prefer completely new framework to PEPP for this purpose

c) Pensions

Prevalence of occupational pensions systems (OPS)

26 Member States provided answers. 18 MS have occupational pension schemes, 3 MS have passed legislation, 3 MS use voluntary schemes, 2 MS have discontinued their scheme (low interest in schemes / marginalised by earnings-oriented Pillar 1)

Two thirds are defined contribution schemes

Some MS make participation mandatory (e.g. as part of collective bargaining agreements)

Design elements: combination with individually contracted elements, solidarity elements, specific provisions for certain groups (e.g. self-employed)

Tax treatment of contributions and pay-outs:

All MS reported specific tax treatment for OPS, most exempting contributions (some exempting payouts instead)

Employer contributions often tax-deductible (with limits), sometimes exempted from employers' social security contributions

Several MS reported innovative tax treatments (e.g. one-time welcome payment)

Some MS exempt investment income. Exemption of payouts sometimes linked to reaching retirement age



c) Pensions (ctd.)

Autoenrollment

Elements are present in many MS, e.g. when employer chooses to establish a scheme or for certain sectors (employees with hazardous conditions)

Success factors for autoenrollment schemes include transparency, simplicity, clarity and comprehensiveness of product & process, communication and raising awareness, ensuring an equal treatment of the employees and the security of the scheme

Possible **EU support** for MS to develop OPS with autoenrollment: fostering exchange of best practices, data sharing platform, reports comparing performance of autoenrollment schemes. Positive experience with technical assistance provided by EC. However, MS also concerned of disfavoring smaller capital markets

Pension tracking systems (PTS):

Coverage of Pillars varies significantly among MS (4 MS cover all 3 Pillars, 6 MS cover Pillars 1 & 2, 4 only cover Pillar 1, one MS covers only Pillar 2, 10 MS do not have any PTS)

Pension dashboard (PD):

MS divided, concerns regarding: PTS vs. PD unclear, some PD already exist at national level, etc.

d) Financial literacy



National strategies:

- Proving the importance of the subject, most MS have a national financial literacy strategy, developed often with the help of the OECD or receiving EU financing through the Technical Support Instrument (TSI).

Financial literacy measures:

- All MS have taken measures to improve financial literacy. The vast majority have, for instance, included the topic in their school curricula and developed measures specifically targeted to entrepreneurs and SMEs. Several MS highlighted the importance of the OECD competence frameworks in that regard.

Nudging practices:

- Many MS encourage saving more for retirement i.e. through automatic enrolment in pension schemes, tax breaks for voluntary contributions, among others.

Suggestions:

- For **EU measures**: provide guidance for helping vulnerable groups and exchanges of best practices;
- For **national measures**: identify common approaches among MS, provide tax incentives for personal savings, and develop investment products.

e) Distribution channels and other factors

Assessing the way forward:

Mixed views on Retail Investment Strategy:

- Supporters: major building block; boosts consumer protection
- Critics: complex – discourages retail investment / risk taking
- Noteworthy: cost definitions; “value for money”; ban on inducement; but work on better advice (advisers’ training, focus on consumer needs)

Scope for further targeted measures:

- Enhance **information to retail investors** (generally or through online readability; specific poss. measures – comparison tools, central website for pension plans, more streamlined information on costs of investment funds)
- **Facilitate investors’ decisions:** standards, label, EU-wide public benchmarks...
- Request for **specific legislative changes:** revert payment-for-order-flow prohibition; more flexibility on PRIIPS of regular product governance process; introduce concept of « undue costs » also in MiFID; suggestions on pension products / services

Work on framework conditions:

- Various suggestions pointing to financial literacy, digital solutions, enhanced competition
- converge supervision on products’ and distribution costs; reduce regulatory burden

e) Distribution channels and other factors (cont'd)

Creating more cross-border investment opportunities

Obstacles to cross-border investment:

- Increase retail investor participation in general
- Differences in national regulations hinder passporting: local rules on marketing requirements/ investor protection; lack of common terms and definitions; insolvency frameworks; financial collateral and settlement rules; supervisory practices. Overall, smaller entities appear disadvantaged

Standardise cross-border products: clear and comparable; focus on consumer needs; EU sovereign bonds as retail products; focused tax benefits; check out for confusing sale strategies (packaged products)

Improve visibility of information: on investment platforms; KPIs for SMEs in the ESAP; “IFRS light” for SMEs; use format of European Tech Champions Initiative

Other Proposals: work on withholding tax procedures, consolidate market infrastructure; prospectus in other languages than the official one

But **caution on expectations:** local markets’ idiosyncrasies remain

To overcome domestic bias (language, culture) – count on younger generation + digital skills

Potential of digital advice and distribution channels

Sound potential for digital financial services: use digital as leverage, run consumer surveys

Mitigating risks to vulnerable consumers: poss. EU standards for digital advisers; enhanced industry-NCAs dialogue; specific review of consumer protection rules; revisit content and aim of Key Investor Doc.; but preserve traditional distribution channels; think of remote/under-served areas wrt digital

Financial digital education and literacy: incorporate new digital tools in programmes; engage in PPPs; target the younger generation; cover also technical / digital competence in addition to financial literacy; promote best practices in advertising – increase investors’ awareness incl. on crypto-asset markets

e) Distribution channels and other factors (cont'd)

Potential of digital advice and distribution channels (cont.d):

Technological solutions:

- importance of e-ID and DIW, mobile app in enabling further uptake
- Simpler, robust authentication as alternative to PIN / passwords
- Access to information: trusted portals with comparison tools, user-friendly interfaces incl. for elderly; mobile-friendly display format

Enabling the industry:

Small group of MS supported:

- subsidies / incentives to develop inclusive financial technologies
- reduced regulatory burden: simplify information duties
- more proportionate regulation applicable to investment firms
- a ban on inducement for financial products

Other relevant aspects or national practices:

Trust in capital markets:

- retail investor protection is crucial
- long-term return on savings transparency and market integration

Impact assessments and regulatory simplification:

- Need for in-depth and rigorous IAs with Commission Proposals