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FESE Response
EU Commission's Public consultation on a potential EU personal pension framework

Introductory remarks

The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 20 Full Members from 29 countries, as well as 1 Affiliate Member and 1 Observer Member. FESE represents public Regulated Markets (RMs), which provide both institutional and retail investors with transparent and neutral price-formation.

At the end of 2015, FESE members had 9,201 companies listed on their markets, of which 6% are foreign companies contributing towards the European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access the capital markets; 1,299 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a single market in capital markets. FESE supports efficient, fair, orderly and transparent financial markets that meet the needs of well protected and informed investors and provide a source for companies to raise capital and for investors to hedge their portfolios. FESE is registered in the European Union Transparency Register with number 71488206456-23.

Given that FESE does not represent entities providing pension plans, we would like to take this opportunity to provide a holistic view of the benefits of a Pan-European Personal Pension Product (PEPP) in the context of the CMU Action Plan. Therefore, FESE has responded specifically to the questions on the current barriers to a PEPP in Europe.

Response to questions

Q2: What are the issues which limit the development of personal pensions in your Member State?
Q3: What are the issues which limit the development of personal pensions across borders?

FESE supports the creation of a Pan-European Personal Pension Product (PEPP) in line with the 2016 EIOPA's 'Advice on the development of an EU Single Market for personal pension products (PPP)'. FESE believes that creating this product would help the EU in meeting the challenges of an aging economy, the sustainability of its public finances, the provision of adequate retirement incomes and fostering increased long-term investment.

In particular, FESE supports a PEPP that allows retail savers to make direct investments in shares and bonds, i.e. that retail investors should have the choice on what they invest in via their intermediary. A PEPP designed in this way would help achieve the key objectives of the Capital Markets Union by addressing the debt-equity bias through channelling retail savings into capital markets and supporting retail investors in making provision for their own personal retirement savings. FESE supports a PEPP that promotes long-term investments through appropriate incentives, without preventing investors from withdrawing from the plan should they wish to do so.

However, FESE considers that several obstacles hinder the creation of this PEPP which allows for direct investment in shares and bonds, both at EU level and Member State level. As highlighted in the Action Plan on Building a Capital Markets Union, "a patchwork of rules at EU and national levels stands in the way of the full development of a large and competitive market for personal pensions. Market fragmentation prevents personal pension providers from maximising economies of scale, risk diversification and innovation, thereby reducing choice and increasing cost for pension savers."

Indeed, each Member State presents divergent taxation rules, legislative barriers and legal requirements that make it unfeasible to develop cross-border savings. However, aside from the specific obstacles inherent to the individual legislations of the 28 Member States, FESE is also concerned with barriers that affect the whole EU and not necessarily depend one specific national framework.

- **Lack of an equity culture**: Europe does not currently enjoy an 'equity culture'. In fact, investing and listing on a public market does not have the positive connotations that it has in other markets, such as the US one where the value of capital markets is often seen as a benchmark for economic growth. FESE believes a PEPP would encourage EU institutions and Member States to facilitate initiatives aiming to educate European citizens about the benefits of diversifying their investments and savings through capital markets. FESE supports a PEPP which is a simple, transparent and transferrable product, so in which investors can understand the product they buy.

- **Debt-equity bias**: in the aftermath of the sovereign debt crisis, EU governments changed rules on pension funds to favour government bonds over other instruments such as equity. However, now that the economy has started to grow again, Europe needs to change these rules back. As recognised in the CMU Action Plan, the EU must adopt a neutral regulatory treatment towards public equity and restore a normal level of pension fund investment in sovereign debt. FESE supports pension fund policies that are not biased either towards bonds or equity and can help rebalance the current investment gap. Moreover, historically equities outperform bonds over the longer term. Given the longer-term horizon of pension funds, making just a small portion of funds available to, for example, SME financing could trigger a huge potential for innovation and growth while adding substantial performance opportunities to retail investors with acceptable risks appropriate to investor requirements.

- **Insufficient size of EU capital markets**: European capital markets are not sufficiently deep and diverse to meet the financing needs of the EU economy, particularly in terms of long-term investment and employment. If compared to other regions of the world, the size of EU capital markets in relation to the overall EU GDP is still underdeveloped (under 100%). FESE would like to suggest an explicit target of 100% to be reached by 2020. We believe that this objective could be very useful in creating the momentum around the range of policies needed to increase the supply and demand sides of the market contribute to a flourishing CMU, directed to long-term rather than short-term investment goals that can multiply real economy benefits. This would, in turn, help achieve optimal risk diversification and multi-pillar diversification, thereby enabling retail investors to save for the long term in a robust manner. Moreover, a well formulated PEPP could help to deal with issues arising from the increasing changes in EU labour mobility.

While FESE understand that tax will not be a main part of the Commission proposal, nonetheless we consider that there are still key barriers on taxation issues that would stop a PEPP from truly achieving its goals:

- **Inconsistent tax regimes**: given the complexity and variety of tax regimes applicable in the 28 Member States, European citizens are often subjected to inconsistent taxation rules. This clearly goes against the spirit of strengthening the Single Market and of creating an efficient and dynamic Capital Markets Union. FESE believes that taxation should not be an obstacle in cross-border savings and therefore supports a competitive tax system across the Union that ensures consistent tax calculations and minimum duplication.
- **Insufficient tax incentives**: FESE agrees with the Commission that tax incentives are a key factor in determining the success of a framework for personal pensions. We believe it would be useful to encourage Member States to put in place tax incentives that encourage direct investments of taxpayers. At the moment, direct investment in shares is often more heavily taxed than investment in funds or property. Eliminating or reducing taxation on capital gains would be a particularly powerful tool for encouraging more investment flows into public equity.

In light of the abovementioned challenges, FESE supports the creation of a Pan-European Personal Pension product to allow direct investments in shares and bonds. This instrument would provide retail investors with the option to direct their savings on capital markets in order to safeguard a decent retirement. It would also help unlock a truly efficient market, meet the demands put on the European economy by its aging population and contribute to finance long-term growth in the continent. Also, in the context of a growing use of defined contribution systems, it is better for retail customers to have greater control over their asset allocation. Enabling a more active and cross-border use of public markets would thus empower the pensioners.

FESE also agrees with the view of EIOPA and the European Commission that personal pensions should help generate funding for long-term illiquid investments such as infrastructure and SME financing.

FESE also encourages the Commission to look at other examples of personal pension products available in Europe such as the Self-Invested Personal Pension (SIPP) in the UK or in the reforms made to the Swedish pension system. These can provide the basis for a workable solution for a European pension product.