

## Linking retail investors and capital markets

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Encouraging and enabling Europeans to save more effectively is an overarching priority of the Capital Markets Union (CMU) project. Retail investors lack trust in financial markets and intermediaries. This is highlighted by the June 2014 Consumer Markets Scoreboard which ranks Investment Products, Private pensions and Securities as the worst performing services market. A large part of European savings are held in bank accounts at relatively short maturities. Individuals are less directly involved in capital markets than in the past. Direct share ownership of European households has dropped from 28% in 1975 to 10-11% since 2007 and the proportion of retail investors among all shareholders is less than half the level it was in the 1970s. This situation is sub-optimal for savers with declining banking deposit rates and the risk of an insufficient retirement income due to demographic aging.

Trust is the bedrock of the financial system. It needs to be won back after the financial crisis and the turmoil we have experienced. While restoring the trust of retail investors in capital markets is primarily the responsibility of the finance industry, legislators can play their part in setting the framework in which people are protected and able to choose financial products that are right for them. Recently adopted EU legislation will bring significant improvement in the investor protection rules, notably in terms of increased transparency, stronger product intervention powers, strengthened inducement rules and concept of independent financial advice. The priority of the European Commission (EC) now is to guarantee that these measures are adequately implemented and enforced across the European Union. In addition to strengthening the regulatory framework, the EC works closely with the European Securities Market Authority (ESMA) to develop and implement a strategy to strengthen supervisory convergence across the European Union.

CMU does not aim to push all individuals to the capital markets. It rather aims at making available more and better investment opportunities to those wishing to invest into capital markets. The Action Plan on building a CMU contains a series of actions in this respect. By way of example, the EC will evaluate the case for a policy framework to establish a market for European personal pensions. In particular, it will examine the range of national experiences across the European Union to see how we can create the conditions for these markets to flourish. To increase competition and improve the efficiency of the cross-border distribution of investment funds, the EC will seek to strengthen the European passport by looking at key barriers to cross border distribution. Removing these barriers would allow investment funds to benefit from higher economies of scale with a positive impact on cost and return for retail investors. The EC will also assess the regulatory framework for retail investment, looking particularly at improving access to suitable products on cost-effective and fair terms, notably against the backdrop of increasing availability of online financial services. Another example is to examine if we can make cross border

investments easier by simplifying the system to reclaim withholding tax when these are subject to double taxation. Finally, the proposed revision of the Prospectus Directive has as one of its key objectives the improvement of prospectuses for investors by introducing a retail investor-friendly “key information” - type summary.