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Promoting long-term investment in the European Union

Long-term Investment Working Group's Position Paper

Paris Europlace is the organization in charge of promoting and developing the Paris financial center. We are a privileged intermediary of European and French authorities, with which we maintain a continuous and constructive dialogue. Our aim is to promote financial markets to international investors, issuers and financial intermediaries to better finance the real economy and the energy transition. Paris Europlace gathers more than 600 members, including investors, banks, financial market authorities, corporates and consulting firms. The work Group "Digital Finance and Use Cases" gathering the financial ecosystem around digital innovation is proposing the following recommendations.

<u>Introduction</u>

- From April to September 2024, three reports (by MM. Letta, Noyer, and Draghi) concluded notably on the need to complement the European Union's (**EU**) Capital Markets Union project by transforming it into a Savings and Investments Union (**SIU**) project.
  Among these reports, it was highlighted that:
  (i) EU is facing massive investment needs to finance its environmental, energy and competitiveness transitions are reaching around 750 billion euros per year;
  (ii) Although European savings are relatively abundant, its heavy allocation in risk-free products, is resulting in underfunding of investments favoring the growth of the EU economy.

- In December 2024, the new European Commission (**EC**) took office for five years, with ambitious political guidelines and mission letters, particularly as regards the SIU.

- Paris Europlace members would like to make an effective contribution to the definition and deployment of SIU's concrete measures by the EC, including the establishment of a European long-term savings and investment framework, as advocated in the Letta, Noyer and Draghi reports.

  To this end, Paris Europlace's Investors Committee has set out in this "Position Paper" certain key areas which it considers essential to take into account in order to successfully foster:
  (i) EU funding; and

(ii) investment by EU savers.

Key proposals

Create a European label making it possible to build on existing national schemes that have already won a large public support and on products with a European vocation (e.g. ELTIF) and thus facilitate and accelerate the success of this initiative.

This label would comply with a specification which is close to the key principles of the Noyer report:

1. **Prioritise retirement savings, but remain open to other forms of long term savings**: long-term retirement savings, by their very nature, strengthen the financing of the economy and structurally protect savers against investment volatility. Thus, it appears to be a natural and effective vector between savings and investment, and it was duly identified as such in the Noyer report. However, long-term savings vehicles not necessarily earmarked for retirement (such as a European bond issue to finance priority investments or the development of securitisation) could also contribute to the development of financial savings in Europe.

2. Meet the financing needs of the EU's energy and digital transitions, notably, by allocating the bulk of payments to **investments located in the EU and benefiting mainly to the EU economy**. One could imagine having a minimum share of **75% or 80%**, with a gradual de-risking mechanism over time, in order to secure the achievement of the investor's objectives.

   As with the French Green Industry Act, the list of eligible investments would be defined by regulation. It should **be broad enough** to allow sufficient diversification of savings and should **not focus on a particular asset class** (e.g. it should not be restricted to equity and equity instruments alone; it should be possible to offer, for example, debt products).

   Among European assets, it would be interesting to **provide for eligibility of ELTIF funds, whose general characteristics correspond well to EU funding needs and long-term savings objectives:**
   - They are invested mainly (at least 55%) in less liquid assets (**typically, investments in unlisted SMEs/mid-sized companies** or which market capitalisation is less than 1.5 billion euros at the investment date, and/or in "**real assets**" or **infrastructure**), and
   - They must themselves offer their holders limited liquidity (i.e. at the end of the fund's life, in case it is closed-ended) or capped liquidity (i.e. a semi-liquidity approach during the life of the fund, in case it is evergreen, resulting in semi-liquid open-ended funds).

"ELTIF as a vector for retirement savings"
In order to meet the specific needs of the energy and digital transitions, notably, a **specification of the additional characteristics allowing the eligibility of ELTIF funds could thus be added. It should be simple and limited to the essentials**.

3. **Define an easily accessible framework for savers that can be applied to different types of products, individual or collective.**
   For company retirement savings products, for example, the application of an **auto-enrolment** mechanism would be a powerful measure in favour of mobilising and allocating savings to the financing of European companies in the long term.

   More generally, the **possibilities of early redemption of savings** could be limited to defined situations (e.g. personal events during life, purchase of the main residence).

   Guided management could be promoted, while remaining at the discretion of the saver, by offering different profiles, for example according to the level of risk desired by the saver ("risk profiles" approach); or by "time profiles", i.e. according to his/her investment horizon or through a lifecycle approach (e.g. with gradual de-risking over time); or both, as often found in retirement savings products.

4. **Provide an attractive tax advantage** within each "national tax ecosystem" (i.e. a "Most Favoured Nation" savings support clause, inspired from the usual "Most Favoured Nation" clauses). This tax coordination, which is more flexible and realistic an objective than seeking a full harmonisation, could be decided at the EU level or, failing that, within a subgroup of Member States brought together in an enhanced cooperation or in an intergovernmental agreement.
   - ➔ **Alternatively, an additional tax advantage** could be granted:
     - an additional deductibility of taxable income of EUR X '000 per year (X still to be determined);
     - a further reduction in social security charges for employers;
     - a tax and social security charges exemption for income and capital gains above a threshold/hurdle yield (e.g. as in the Swedish "ISK" system).
   - ➔ **In any case, this tax advantage should not be reserved for so-called simple and low-cost products**, as the search for performance must be encouraged in order to foster the allocation of savings to carefully selected investment opportunities, which are more likely to generate returns for the saver and value for the economy. This effort to find and select investment opportunities comes at a price, which fair and effective competition must be able to determine.
   - ➔ **The tax advantage must not hinder portability** between eligible media, so as not to fragment ownership into smaller products, stemming from customers' savings paths and their career developments, including across the EU as may be the case. Indeed, this would be detrimental both to the saver and to the scale effect of financing within the EU (as explained in the Noyer report).
     This tax-coordinated portability between eligible media would be:
     - at least set up within the same Member State,

- between Member States, provided for in the above-mentioned tax coordination agreements, applicable in case of change of residence of the saver within the EU. In particular, if the medium is marketed on a cross-border basis, the change of residence should entitle the holder to a tax-free transfer in the 'passported' compartment of the medium, in the new country of residence, if applicable (and otherwise, in an equivalent medium under the terms of the agreement).

This label could also be a vehicle for the financial education of European savers by enabling them to grasp long-term investment notions with common standards, applicable regardless of their country of residence or the type of product in which they wish to subscribe.

In France, the "PER" (Plan Epargne Retraite) is notably, a product which could meet those specifications, in both its banking and insurance form.

Paris Europlace underlines the importance of a rapid implementation of this proposal in order to contribute effectively to the promotion of long-term investment in the European Union.