PARIS EUROPLACE

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Savings and Investments Union
Paris Europlace's contribution to the European Commission's Call for Evidence

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 asset managers, insurance companies, funds, sustainable finance entities, banks, market infrastructures, rating agencies, , corporates, consulting firms, and public authorities.

1. Finance: a strategic sector

Paris Europlace urges the Commission to implement a SIU to strengthen the EU financing capacity, recognizing the essential role of the financial sector in addressing the EU considerable financing needs. Finance must be identified as strategic and authorities must promote its competitiveness as a top priority. They must include competitiveness and growth as a second mandate of European authorities. The development of new digital markets with the appropriate regulatory framework is also essential to ensure European sovereignty over new emerging markets to broaden the sources of financing and to create jobs.

2. Simplifying financial regulation

The European financial sector suffers from high compliance costs, meaning higher costs for end-users, which calls for a rapid removal of disproportionate requirements or complexities. It is essential to realign financial related ESG regulation (SFDR, CRR/CRD, Solvency II, EU GBS, Pillar 3, ECB guidelines etc.) in sync with the Omnibus proposals. Prudential, market and consumer protection regulations should also be urgently and drastically simplified in line with the stated goal of reducing reporting burden by 25%. The

PARIS EUROPLACE
28, PLACE DE LA BOURSE 75002 PARIS
SIREN : 393 769 252 – TVA :FR0K393769252
TEL : +33 (0)1 70 98 06 32 - Site web : www.paris-europlace.com
Association régie par la loi du 1er juillet 1901

planned report on EU bank competitiveness should be accelerated and expanded to all financial players.

3. Reduce fragmentation and reform capital markets supervisory governance

The key obstacle for firms to operate as in one EU must be addressed: divergent transpositions of directives or interpretations of EU rules across Member States or "gold plating" by national competent authorities (NCAs). It is imperative that all obstacles to cross-border activities be removed.

A single market supervision in the EU should be the medium-term goal. In the meanwhile, a direct ESMA supervision should be considered for market infrastructures with pan-European operations, which currently encounter varying approaches from different NCAs.

Last, impact assessments of any new regulation must be based on a close dialogue with the financial industry, with peer reviews also contributing to ensure a proper implementation of this regulation.

4. Fostering EU savings and channeling them to EU investments

Channeling the abundant EU savings to EU investments is key. Given the multiplicity of national tax regimes and pension frameworks, a voluntary EU label on existing national savings products (notably pension savings) associated with attractive tax incentives should be developed. It will require consistent financial information to citizens, notably through pension dashboard, as well as financial education so that individuals can be better informed about possible pension gap and adequate means to address it. It also requires a drastic simplification of the customer journey to encourage investments, currently disincentivized by burdensome rules. The RIS needs to be refocused on these objectives.

In addition, tax barriers, such as the application of withholding taxes or their lack of harmonization, generate complexity and legal uncertainty and hinder investment. In order to finance its wider objectives, genuine freedom of movement for capital is key: withholding taxes in the EU must thus be abolished.

5. Facilitate access to finance by businesses and households

Access to equity needs to be facilitated by developing private equity and late-stage capital, as well as foster public equity markets. On the debt side, even if private credit markets have developed, a significant portion of additional investment needs will be financed by banks. Given the regulatory pressure, capital constraints will prevent banks to absorb this increase in balance-sheet.

This is why the reform of securitization is essential to allow banks to share the risks that they are originating (under a strictly supervised risk management framework) with

attractive investments in terms of risk/return with other market participants such as pension funds, insurance companies, which are natural long-term debt holders.

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Paris Europlace fully concurs with the EU Competitiveness Compass that considers “Financing competitiveness” as an essential enabler underpinning competitiveness across all sectors. Indeed, the financial system, including banks and capital markets, is the lifeblood of the economy, an essential driver to strengthen EU prosperity and competitiveness. However, as evidenced by the Draghi, Letta and Noyer reports, even after the implementation of two Capital Markets Union roadmaps, the EU lacks an efficient capital market that turns savings into investments in the EU. The banking sector remains an important source of financing in most Member States, while its financing capacity is being significantly constrained by constant regulatory and supervisory pressure.

Paris Europlace fully supports Maria Luís Albuquerque, Commissioner for Financial Services and the Savings and Investments Union, as she said: *“The scale of investment required to ensure EU competitiveness while addressing the clean and digital transitions is massive. To succeed, we need a well-functioning, efficient, deepened integrated capital market and banking sector that brings together savers, institutional investors and companies.”*

In this context, Paris Europlace thanks the European Commission for the opportunity to provide input in the building of the Savings and Investments Union (SIU) roadmap, to be presented by the end of Q1 2025. Citing President Ursula von der Leyen, “What matters is speed and unity. The world is not waiting for us.”

We would like to comment on the SIU’s main priorities, as described in the EU Competitiveness Compass, and in the Call for Evidence.

1. **Mobilizing savings more effectively**, notably by supporting retail participation in capital market through accessible investment products and appropriate fiscal or other incentives, thereby pooling large amounts of investment capital and enabling more wealth creation.

Fundamentally, it should be simpler and cheaper for retail to access public markets, whether directly or via a pension plan. Paris Europlace fully supports the development of retail participation in EU equity markets. However, we warn the European Commission that the exclusive focus on reducing production and distribution costs of financial products may not result in the expected outcome as regards channeling more EU savings into EU investments. Actually, the low-cost approach, underpinning the previous European Commission’s Retail Investment Strategy (RIS) initiative, unnecessarily threatens the advisory role of financial players.

While abusive costs could be tackled by supervisory actions, regulation should remain agnostic across various investment products categories and portfolio management approaches, corresponding to different client needs and risk profiles. Promoting a EU label would provide access to financial markets at a “fair cost”, while avoiding the pitfalls of so-called “low-cost” products. A comprehensive impact assessment would be essential before the RIS can proceed: ultimately, RIS should lead to a good risk-reward evaluation and thus more equity allocation, not only focus on reducing risk appetite.

Indeed, it is essential that the savings of retail and institutional investors be more oriented towards the long term, not only to address demographic challenges, but also to meet the financing needs of companies, whether in equities or debt instruments. Thus, the establishment of a European label for certain dedicated savings products that would invest predominantly in the EU (at least a minimum of 75%-80%) could help mitigate investors' reluctance to invest in young companies, given their higher failure rates, and motivate them to embrace a risk/return ratio that would prove profitable in the medium and long term. A larger use of securities accounts and the ELTIF label could also be very much helpful in that respect.

Retail investors should also be encouraged to diversify and allocate an increased portion of their investments in PE/VC funds. It is essential to give retail investors a simple access to the solutions already available on the public market for investing in EU assets. Indeed, reducing costs should be achieved without creating competitive biases, in particular by reducing the burden linked to an excessively complex customer journey imposed by the EU financial regulation. This burden not only creates costs for the financial system (and consequently for retail investors), but also discourages clients to enter into investment in the “traditional” financial sector, and turn them into the much more user-friendly digital investment solutions, including crypto-assets.

Rightsizing the regulatory requirements as regards consumer protection would be essential to achieve the goal of supporting EU citizens in increasing their financial wealth. This requires reducing excessive burden in the regulated space and implementing similar rules for similar activities in the currently non-regulated sector, according to the principle “same activity, same risk, same regulation”.

An harmonized European long-term savings product should be implemented to promote the channeling of resources towards businesses in key sectors, offering citizens potential higher returns and supporting European corporate funding and pension plans challenges. This could be implemented as a European label in voluntary countries for national products that meet specific criteria, such as long-term focus, risk taking, lower liquidity, and predominantly European investments. This label would ensure the necessary legibility and visibility for savers. However, we believe it should not be solely centred on low costs. In other words, costs should not be the primary defining criterion for these products. Rather, the overall benefits they provide to savers in relation to their specific objectives should be considered.

2. **Making more investments available for EU companies**, including for young and innovative companies, notably by incentivizing European private and institutional investors to channel funding to productive and innovative firms.

European savings are abundant, but these savings are primarily directed toward liquid and risk-free investments, with a significant portion is leaving Europe annually to finance the rest of the world. Meanwhile, the investment needs for the transition to a sustainable economy, digitization and artificial intelligence, as well as European defence and sovereignty, are immense. However, the equation does not balance: Europe struggles to qualitatively and quantitatively align available resources with desirable uses, savings with investment needs.

The main reason is that the issue is always addressed in a piecemeal manner. For instance, the European Commission's RIS aims to promote household investment in financial securities (stocks, bonds, fund shares, etc.). However, it does not consider the allocations of these resources (despite the strong encouragement for liquid and risk-free savings in Europe), their geographical destination (the EU or the rest of the world), or which citizens will be affected by this strategy—whether a small wealthy minority of people or all households. Similarly, while this strategy is proposed to better direct household investments towards equities, the EU adopts two main regulations (the transposition of Basel III in the banking sector and Solvency2 in the insurance sector), which confirm the strong prudential disincentives for institutional investors to invest in equities.

In practice, investment in Europe as a percentage of GDP has stagnated since 2019 and even declined in 2024. Moreover, the profitability of European companies remains sluggish, offering returns on their shares far below those of American companies. Thus, nothing attracts European savings toward investment or offers new attractive opportunities for savers. A pattern of economic stagnation and decline, well analysed by Mario Draghi, has emerged: no investment, no innovation, no productivity, no growth, no return, not enough savings in European equities. It is a vicious cycle that needs to be broken.

The obstacle is not primarily a financing problem—savings are abundant— but a real investment problem: a lack of projects. The key is investment, as emphasized by Mario Draghi. The role of public authorities is crucial to unlocking investment in Europe, as they are supposed to have a global and long-term vision and economic leverage. Banks, insurance companies and assets managers know how to and can finance investment. But economically and financially viable projects are needed, as financial institutions will finance them with the money of savers, European citizens whom they must not defraud. As a consequence, Europe needs to become a Europe of projects again, as it was at its origin, as opposed to the regulatory Europe it has become.

All in all, while a large majority of business financing via debt instruments in the EU currently comes from banks (78% in the Eurozone vs. 38% in the US mid-2024), this better orientation of savings would make it possible to rebalance the sources of financing, banks and financial markets being in fact complementary. In that domain, a well-managed and secured

securitization is essential for the proper financing of the European economy and the competitiveness of EU financial players. Targeted regulatory changes, as illustrated in the precise policy recommendations detailed in our September 2024 report[1], should help revive this market: for issuers and investors alike, this activity has declined dramatically over the past 15 years, particularly compared to the US, due to inappropriate regulation.

Indeed, securitization will help banks accelerate the rotation of their balance sheets, provide more loans to their customers and play their part in the collective challenge of financing the transformation of the European economy on defense, digital and sustainability grounds, in a capital-constrained environment (Basel III). Christian Noyer estimates it could progressively generate additional €250-500 billion in private financing annually, out of the € 800-1,000 bn needed.

Similarly, investment by VC/PE funds in innovative firms should be facilitated through a thorough revision of the EuVECA Regulation, which would fundamentally simplify and reshape it and significantly enhance its appeal to both managers and investors. For instance, eligible assets should be expanded and funds of funds permitted. A platform-based solution should be set up in order to support fund managers in scaling up their fundraising efforts and diversifying investments geographically. In addition, investor eligibility should be enlarged and disclosure requirements streamlined.

Finally, in order to strengthen the attractiveness of financial markets for young companies, complementary initiatives, including industry-led initiatives, should be taken on board to harmonize regulatory requirements for prospectuses, listing, voting rights and public disclosures. Likewise, greater support for long-term investors (i.e. cornerstone) and private equity (via venture capital) would be valuable in facilitating IPOs.

3. **Fostering greater market integration** and efficiency in capital markets so as to support the creation of market depth and scale, by identifying and removing barriers to cross-border activity such as supervisory, tax or authorization barriers.

There are many barriers that still fragment the single market and hinder the free movement of capital: prudential regulation of financial institutions (CRR/CRD and Solvency2) limiting the volumes of capital available, the very limited size of the securitization market in the EU compared to the US, the non-harmonization of national laws on insolvency and many divergences in tax regimes in particular.

More specifically, European institutional investors, such as banks, insurers and pension funds, should be encouraged to invest more in PE/VC funds supporting European companies. Prudential requirements applicable to these investors in relation to their long-term investments should be alleviated and prudential rules should be eased to facilitate these strategic investments beyond the existing rules. This could also be achieved by promoting allocations to EU PE/VC through pension plans and life insurance contracts (e.g. via lifecycle

[1] https://www.paris-europlace.com/global/gene/link.php?doc_link=/docs/2024115514_2024152535-paris-europlace-securitisation-full-report-and-appendices-2024.pdf&fg=1

investment mechanisms or through tax incentives) and by raising awareness among managers of these plans and contracts. Furthermore, a more harmonized and legible framework would encourage cross-border investments into EU companies. For instance, the harmonization of insolvency regimes across the EU or the introduction of a 28th EU regime for innovative companies could be instrumental.

Equally, European directives may or may not be transposed by all Member States, and with interpretations that in some cases may create an uneven playing field for financial institutions (with also some national competent authorities over-transposing – gold-plating - some European legislations). For this reason, prioritising regulations over directives would also result in more uniform application of European rules. Finally, national supervisory practices, even when the regulation directly comes from a European text, can differ significantly and therefore generate large distortions of competition among firms from various countries.

Another way to foster greater market integration and increase liquidity in EU financial markets pertains to alternative market-based – rather than regulatory – tools to support financial stability objectives. The European regulation can be focused on specific sectors or not take into account latest industry developments. This can impede innovation that is beneficial to the EU competitiveness. Typically, the revision of sectoral regulatory barriers (MMFR, UCITS, AIFMD, CRR) would facilitate the voluntary uptake of CCP membership models for buyside institutions.

4. **Enhancing supervisory arrangements** to ensure that the single rulebook is effectively applied and that oversight of capital markets is of high quality across the EU.

The burden and complexity of regulation, as well as divergent supervisory policies, weigh too heavily on the competitiveness of financial players established in the EU. We believe that European governance is today excessively complex: too many authorities work in silos without appropriate exchanges, while sometimes display overlapping competences or imprecision in the scope of their responsibilities.

Similar to what the United Kingdom has put in place since 2023 for its main regulators, Paris Europlace considers that the European supervisory authorities should have a secondary objective within their mandate, inviting them to support the competitiveness of EU financial institutions and the long-term economic growth of the European Union.

In the absence of such a secondary objective, the conditions do not seem to be met today to rapidly progress towards more centralization in the supervision of financial institutions which should be the ultimate goal. Nevertheless, substantial progress could be made if the notion of a "group" were more widely recognized in the asset management industry or if a “lead” supervisor were designated for some institutions with cross-border activities. Direct ESMA supervision of cross-border financial markets infrastructures should also be considered, notably for CCPs. This is an example of one of the areas where financial market infrastructures with pan-European operations report encountering varying approaches from different NCAs. This hampers their competitiveness, as it becomes more arduous to establish common

processes and tools that would allow them to reduce the cost of their services and products for investors and issuers. There would be benefits from a supervisory, business (time to market related considerations) and level playing field perspective to bring these actors under the single supervision of ESMA.

Furthermore, the use of regulations, being directly applicable, would make it possible to limit, in comparison with directives which are variously transposed and interpreted, the risk of regulatory shopping. Prioritising regulations over directives would therefore also result in more uniform application of European rules. Finally, the quality of regulation and its proper application would be strengthened if these provisions were transparent, stable and predictable in their implementation. To this end, involving financial institutions more and in the early stage in the definition of rules, through consultations and hearings, would make regulation more effective in achieving its objectives. Alike, undertaking peer reviews in the application of the rules more regularly and earlier would facilitate the identification of divergences and possible corrections to be made if necessary.

5. **Promoting the strategic nature of the financial sector**, as an important building block for the SIU is already in place or is being put in place.

The European Union must further capitalize on the resilience of its financial system, which includes many G-SIBs, world-class insurance companies and asset managers, as well as world-leading financial market infrastructures. This financial sector is strategic for financing the dual energy and digital transition, because it must make it possible to mobilize the capital that the EU needs on a gigantic scale, not to mention geopolitical issues.

In line with the position of some Member States, we should put a stronger emphasis on the competitiveness of financial sector. In this context, we believe the European Commission should work on a report on the competitiveness of the financial industry ahead of the publication of the Commission report reviewing the overall situation of the banking system in the single market by end of 2028 as required under CRR.

In addition, access to affordable and reliable data is crucial for competitiveness and efficiency of EU financial markets and for financing the EU's green transition and contributing to sustainable competitiveness. The dependence on non-EU firms to access data is currently costly for issuers and investors: affordable, transparent and high-quality data provided by EU institutions should become a reality.

So, all in all, to capitalize on its qualified workforce and its digital innovation capabilities regarding CBDC, DLT, AI, cybersecurity and crypto-assets in particular, the EU must more than ever simplify its regulation to gain agility and adaptability. The competitiveness obligation will strengthen the Union's autonomy and its prosperity in the medium term.

Indeed, the CMU was an ambitious objective, but unfortunately several obstacles prevented its full realization, in particular the fragmentation of markets which limits their liquidity and efficiency, regulatory divergences between Member States, or the lack of interoperability of

European market infrastructure. The Draghi report showed that the key driver of the rising productivity gap between the EU and the US has been digital technology.

To address this productivity gap, the European economy needs to better integrate new technologies. In certain areas of the financial sector, adoption of blockchain or DLT could offer the potential for very significant productivity gains due to the automation of market transactions and of the back offices of financial institutions. The potential market of blockchain on the EU economy is significant. The EU is currently well-positioned in the race on primary issuance of tokenized bonds, but needs to remove regulatory blockers to enable at-scale development of blockchain-related financial services.

It is surprising to see that the EU Competitiveness Compass doesn't mention at all the blockchain technology, considering that blockchain brings large productivity gains to the financial sector. The Commission's Working Program should include strong legislative proposals to support the development of digital markets, with a digital markets legislative package consisting of six pillars: foster the development of DLT wholesale market infrastructures by expanding the pilot regime; facilitate the integration of DLT technology in financial institutions by adopting an appropriately balanced prudential regime; support monetary digitalization through a wholesale central bank digital currency which would interact with stablecoins and tokenized commercial bank money; foster the digital transition of European financial markets by supporting tokenized public debt issuance using DLT technology; promote standards for interoperability between new infrastructures and existing ones for securities and payments.

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Paris Europlace is available to present in detail to the European authorities all the regulatory recommendations and proposals for action published in these areas, notably the following ones: 2024-2029 European priorities, Securitisation, Asset tokenization, Wholesale Digital Markets, AI, NBFI, Long-term investment and Data in particular.