# EUROPEAN SAVINGS AND INVESTMENTS UNION
## CALL FOR EVIDENCE

4 March 2025

*Introduction*

The EU and the Member States must invest at an unprecedented level to regain its lost competitive edge and to finance the green and digital transitions. As set out in both the Draghi and Letta Report, in such a context, access to finance, specifically long-term debt financing, equity investment and risk capital, is a pre-condition for companies to thrive and make the investments necessary to drive growth, maintain competitiveness and provide jobs and prosperity to citizens whilst delivering the twin transition. Finance needs to be available through a variety of channels and on reasonable terms. We need to facilitate the free flow of capital in the EU. We need to promote cross-border investment as currently markets are still very much dispersed and there is a strong home bias from investors. Developing a Savings and Investments Union (SIU), which combines the Capital Markets Union (CMU) and the Banking Union, should help to increase the availability of finance but the main goal should be to make the EU more attractive to both foreign and domestic investors.

The EU economy has stagnated at 70% of U.S. GDP *per capita* for over 30 years. This underperformance is due fundamentally to lower long-term competitiveness gains, which feeds into persistent low growth and fragile public finance. On its turn, EU competitiveness is disappointing not only because of the still fragmented state of EU real and financial markets, but also because of the high and growing regulatory burden. It is crucial to also address those hindering factors.

Structural reform implementation, including actions necessary for completion of the EU's Single Market, have stalled -and in some cases even gone into reverse- in the past few years. Without meaningful improvements in this area, EU companies will not be capable of escaping the vicious circle of low investment, low innovation and low growth. Especially for SMEs, it is sufficiently recognised that financing needs change as a business grows and exceeds what most bank financing and public instruments can offer. Currently, we see that many startups and scale-ups, due to challenges related to the existing ecosystem and concrete financing opportunities, too often seek growth opportunities outside the EU. Investment as a share of GDP in the EU, after falling for years, is currently lower than that of its international competitors, even if its savings rate is higher than, for instance, that in the US. Although BusinessEurope supports leveraging those private savings in support of the EU's wider objectives, developing a Savings and Investment Union will not be enough to address the savings and investment mismatch in the EU. This situation can only be addressed by improvements in the business climate and on the regulatory burden.

It is also important to maintain an efficient and competitive banking system and broader and deeper financial sector, able to support the development of European companies of all sizes considering that EU companies will continue to need bank debt financing. They will also need access to risk-mitigating derivatives on reasonable terms as these are of strategic importance for the risk management of non-financial companies, stabilising cash-flows and enhancing creditworthiness. And lastly, financial entities also play a

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crucial role in channelling savings into capital markets. We elaborate on those points below.

*Developing well-functioning, deep and liquid EU capital markets.*

Although in recent years progress has been made, creating a genuine CMU has been disappointing. Having said that, there are several measures related to it that still need to be fully implemented. For example, the availability of information regarding growth-prospects for companies is essential to ensuring greater funding diversification. This will help to improve access to capital markets for those growing medium-sized firms that are most likely to benefit from easier access to finance, particularly longer-term, patient growth capital. The creation of a European consolidated tape (bringing together market data for the whole EU) and the setting up of the European Single Access Point (offering a single access point for public financial and sustainability-related information about EU companies), should help to overcome this limitation and encourage increased cross-border investments.

Similarly, the implementation of the Listing Act Package should make equity and bond financing in the EU more attractive, including for SMEs and simplify national listing rules. Focus should be to promote further simplification of listing requirements across European exchanges, encouraging companies to list on exchanges and to ensure lower costs and reduction of the administrative burden for companies. For example, listing laws in Europe depend on each Member State (even though there are provisions in the Markets in Financial Instruments Directive (MiFID II) or the Prospectus Regulation, which focus more on the content and less on the approval process). Thus, if we speak about the legal framework for non-equity securities, it depends very much on national laws, regulators, supervisors and stock exchanges. On this subject, and regarding the different national competent authorities, there are big differences on the timing of the responses. The approval process should be harmonized towards the shortest possible timeline for them to reply, to expedite the process and reduce the regulatory requirements for issuers seeking admission of non-equity securities on the relevant markets. Similarly, the lack of research on small/mid caps following MiFID II rules regarding bundling, have led to a situation where the assets under management in this segment continue to decline vs large caps.

We should also continue efforts to reduce fragmentation of insolvency rules which creates additional legal costs and uncertainty for cross-border investors, making those investments less attractive. In this context, it is important to preserve the enforceability of close-out netting as this reduces credit exposure. Furthermore, barriers for retail investors to enter (cross-border) markets should be lowered, for example by encouraging the use of new technologies (like pan-European platforms) and initiatives to improve financial literacy of retail investors to access profitable investment opportunities. Discrimination against investors from other Member States should be eliminated and intra-European investment protection rules should be put in place including investor-state dispute settlement.

We should increase capital markets financing by institutional investors such as pension funds and insurance companies, which normally pursue a long-term investment strategy. These investors should be encouraged to invest long-term risk capital to generate

employment and economic growth and finance the twin transition. Investment into the uptake of private placements should also be made more attractive and the venture capital and private equity industry development must be supported as an essential source of risk finance and expertise for innovative companies considering that the industry remains much smaller than that in the US.

It is of great importance that every invested euro generates the maximum impact. This requires a strategic approach where both public and private funds are optimally utilized to address the challenges that Europe faces. Due to current laws and regulations, banks are forced to take low risks, which is contrary to the characteristics of innovation and transition financing and therefore cannot be funded by banks. Banks, investors, and financiers need to be encouraged to make these investments.

We must also improve tax systems to better support equity-financed investment. However, such improvements should not come at the expense of the tax regulations governing debt-financed investments. Also, the practice of withholding taxes on cross-border portfolio investments constitutes one of the main obstacles to an integrated capital market in the EU. Withholding taxes on dividends, interest and capital gains within the EU constitute a brake on the single market, on investments, on the free movement of capital, and generate complexity and legal uncertainty for investors who are often not sure that they will be able to benefit from the reduced rates which they are entitled to under tax treaties. Also, Financial Transaction Taxes in several Member States continue to hamper investments. Whilst respecting Member States' competence in the field tax, such practices should be reversed as they constitute a significant barrier to deepening integrated capital markets.

As regards supervision, it is essential to focus on simplification of processes and reduction of compliance costs for supervised entities. Supervisory barriers to cross-border activity should be removed and the application of the single rulebook should be ensured whilst respecting the unique insights and expertise of local regulators. This should foster a balanced adaptable supervisory environment and ensure that oversight of supervised entities is proportionate and of high quality across the EU.

Lastly, Member States should also be encouraged to improve the efficiency of their respective capital markets by establishing an enhanced peer review process at EU level, enabling peer support and peer pressure to drive reform at national level by addressing challenges and learning from successful practices.

*Channel household savings into capital markets.*

BusinessEurope supports exploring options for Member States to mobilise household savings and developing EU savings and investment products. It is important that such products have few administrative burdens. It is also important that using the products would not require locking in of capital for long periods; they should be liquid products allowing for withdrawals without costs. There should also not be any undue restrictions on portfolio composition, forced allocation to EU assets, or onerous requirements regarding the management of the funds. Additionally, people also save for other long-term goals, in cases where investing might be better; it can help if these two alternatives are compared not only on risks but also on expected long-term returns. A 'light regime',

where lighter suitability requirements apply for small investments in simple, well-diversified, and low-cost investment products, can make investing less challenging for consumers.

The challenges of developing a SIU must also be addressed in the Retail Investment Strategy by streamlining procedures, reducing administrative burdens, and ensuring that retail investors can access expert advice, high-quality services backed by specialists, and a wide range of investment products without being hindered by regulatory complexity. In this context, despite some efforts by the co-legislators to refine the original proposals of the Retail Investment Strategy and adjust some of its more far-reaching elements, the combined effects of the reform, as it is currently designed, may not create favourable conditions for greater participation of retail investors in markets. On the contrary, this reform could add unnecessary complexity to the current regulatory framework, with negative impacts on businesses, their clients, and ultimately on the financing of the European economy.

BusinessEurope also supports encouraging Member States to use the pension system for channelling household savings into capital markets. It is essential to strengthen the pension systems in EU Member States, with special attention to the second and third pillars, in order to mobilize significant amounts of capital and support the objectives of the SIU. Individual pension savings should also be made more fiscally attractive, and administrative barriers should be lowered through simplified regulations and standardized products, keeping in mind the key role social partners play for occupational pensions. Additionally, transparency and digital access to pension options should be improved, allowing citizens to make informed choices more easily without creating unnecessary burdens on employers. At a time when pensions are usefully looked at to improve the financing of our economy, it is important that the EU and Member States coordinate their actions to improve in parallel the financial literacy of employees.

*Maintain an efficient and competitive EU banking system to support the development of EU companies of all sizes.*

The EU should continue efforts to put in place a Banking Union, which would enable liquidity, including bank dividends, to flow freely between Member States. This requires that banks' liquidity is not ring-fenced in specific Member States enabling effective competition between financial institutions and ensuring that savings are allocated to the right place. Moreover, any proposed measures should not lead to price control mechanisms or compromise free competition and innovation.

It is also important that prudential rules strike the right balance between ensuring financial stability and supporting companies' financing needs for investment and business activities. This requires a gradual and consistent implementation of Basel IV to allow banks to truly support enterprise development and remove undue conservatism in the regulatory framework thanks to increased resilience of the banking sector. Bank financing is not always suitable for new applications, such as innovative start-ups and scale ups or transition financing, given the high prudential requirements that banks must meet. Recent changes to capital requirement rules have increased the cost of capital, which is a decisive factor for lending conditions in the market. They also led to banks building up significant amounts of capital increasing their resilience. The increase in

capital and liquidity ratios has been significantly bigger in Europe than in other global regions. New rules, and subsequent implementation rules and guidance, following Basel IV, should support companies' need for capital for investment and trade (bank loans, equity investment, trade finance) and ensure access to risk management products at competitive terms. Careful attention should be paid to the EU market structure and the need to ensure a level playing field vis-à-vis other major jurisdictions both in terms of implementation timing and in terms of substance and operational burden.

This means that the EU should consider further delaying the application of the fundamental review of the trading book (FRTB) for both standardized approach and internal models and maintain the current treatment of repos under the net stable funding ratio (NSFR). Given the current dependency of corporates to bank lending, we think it is also important to maintain the solution found for unrated corporates and maintain it until a viable and capital neutral solution has been found for corporates that do not have an external rating. It would not be in the interest of Europe to force thousands of European corporates to obtain external ratings. EU legislators should primarily propose EU-based solutions making good use of the existing information about the creditworthiness of European corporates in Europe.

Regarding level 2 and level 3 acts such as Regulatory Technical Standards, Guidelines etc. published by the European Supervisory Authorities, these should be proportionate and entirely coherent with the outcome of the legislative process and the political agreement reached on the level 1 texts without going beyond what is strictly necessary. In this context, it is very important that the Commission, and also the Council and European Parliament, pay greater attention to assessing the capital impact and costs of proposed delegated and implementing acts.

For example, one of the new elements introduced by the European Banking Authority in the so-called "new definition of default" is the application of the Net Present Value variation criterion to decide whether a forbearance measure results in a diminished financial obligation that triggers the classification of the obligor as defaulted. When a bank extends a forbearance measure towards a debtor, facing or about to face difficulties in meeting its financial commitments, the Net Present Value of the cash flows according to the new schedule shall be compared with the Net Present Value of the cash flows according to the original contract. If the Net Present Value is reduced by more than 1%, this is considered a diminished financial obligation that triggers the default of the obligor. The 1% threshold is very strict and limits the opportunity for banks to work with a solvent business without marking it as forborne. Default status triggers severe consequences for the business concerned with heightened cost of credit, immediate fall of rating/scoring, appearance in bad files and curtailing access to credit from other institutions. Consequently, a more flexible approach should be adopted.

Likewise, changes proposed by the European Banking Authority to the capital requirements for unused credit lines would raise the credit conversion factor (CCF) affecting banks' capacity to provide credit to EU companies. Analogously, some trade finance instruments may also be subject to higher CCFs, leading to higher capital requirements undermining the competitiveness of EU banks and corporates vis-à-vis international competitors. Other examples where the European Banking Authority is adopting an excessively conservative approach are the credit card acquiring business

and product offers, where the proposed CCFs severely penalize these banks' activities. The new CCF requirements and the introduction of subjective criteria for the allocation of a 40% CCF to Unconditionally Cancellable Commitments (UCCs) exceed Level 1 mandates and will increase compliance burdens and costs for businesses.

Securitisation is also important to reinforce the role of banks. We need to boost the EU securitisation market and explore ways to enable banks to free up capital and liquidity for the purpose of providing additional funding to EU businesses. For a securitisation to be compliant with European regulation, it must meet a lengthy series of criteria which are difficult to satisfy, with prudential rules for banks and insurers penalising investments in these products. Reviewing the entire securitisation framework, including improvements to the prudential treatment of securitisations for banks and insurers, reporting requirements and due diligence obligations, would also help non-financial companies wishing to securitise receivables or other assets.

*Maintain current rules regarding derivatives trading for risk management.*

Risk-mitigating derivatives are of strategic importance in the risk management of non-financial companies, they stabilise cash-flows and enhance creditworthiness. As such they do not contribute to systemic risks in the financial system. Upholding the existing clearing exemption for non-financial counterparties (NFCs) which use 'over-the-counter' (OTC) derivatives in conjunction with risk mitigation of underlying real economic risks as set out in the European Market Infrastructure Regulation (EMIR) is crucial for the real economy. Otherwise, it would be harder for corporates to hedge their commercial risks using derivatives which implicitly leaves those businesses having to either accept higher levels of risk (such as exposure to interest rate and currency exchange rate fluctuations) or in extremis to reduce the commercial activity. Likewise, it is important to uphold the ancillary activity exemption for derivatives related to commodities under the Markets in Financial Instruments Directive (MiFID). Otherwise, it would be harder for companies to hedge their commercial risks related to commodities and energy due to lower liquidity in the market making it more difficult to achieve stable and competitive prices.

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