

Friday, March 7<sup>th</sup>, 2025

## EBF Response

### Call for Evidence by the European Commission on the Savings and Investment Union

#### Introduction

- The EBF welcomes the opportunity to share views on the Savings and Investments Union (SIU).
- The Savings and Investments Union, integrating the Banking Union and the Capital Markets Union, well reflects the interconnectedness of bank-based and capital market financing. These are complementary in both their economics and role as core components of a thriving business ecosystem.
- The EBF emphasizes the critical importance for the EU to address the completion of the Banking Union, which remains incomplete after 10 years.
- Banks, while providing financing to corporates and citizens in the form of credit, also serve issuers and investors in the market as advisors, service-providers, underwriters, liquidity providers, and in many other capacities. Banks also participate directly in markets as issuers and investors themselves. One prime example of such interconnectedness is the tool of securitization, which serves as a bridge between bank lending and capital markets.
- Strong, competitive banking and financial sectors are therefore strategic for meeting the EU financing needs and restoring the bloc's competitiveness.
- Unlocking the potential of deeper and well-integrated EU Capital Markets, in parallel to strong bank financing, is key to meeting the estimated 1000-billion-euro annual investment gap needed, among others, to maintain leadership in the transition, catch up on growth and innovation, and ensure common security in the EU. Such urgency is further reinforced by the need to promote solutions for maintaining the prosperity of an ageing population.
- Having said that, discussing and understanding risk must be seen as a precondition to material capital markets development. Without the necessary risk appetite and risk/return ratio, there cannot be sufficient equity culture, investor participation, and therefore, market scale-up.
- Also, a thriving and vibrant business environment that prioritizes and rewards innovation, as well as fair and transparent competition, are both key drivers of market growth, cost reduction and efficiency gains. These factors help maintaining a wealth of diverse investment products and services accessible to investors. Without them, capital markets grow with greater difficulty.

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### Direction of travel: adopting a *Capital Markets Mindset*

- **Banks in Europe provide the bulk of investment funding.** They alone, however, cannot help the EU win the global investment race.
- While a traditional **top-down approach** to EU capital market development has produced results in the first two iterations of the CMU, a **novel, bottom-up perspective is needed.**
- In particular, for the SIU to succeed, Member States must see and actively pursue clear market-driven benefits for their economies, investors, and citizens. Beyond EU-level initiatives, their focus should be on developing deeper, more liquid national markets by expanding capital supply and demand. In other words, **Member States should adopt a Capital Markets Mindset:** a stronger domestic commitment to drive market growth, ensure competitiveness and promote long-term financing.
- This is also in view of the fact that key drivers of long-term capital development, such as tax law and pension system reform, remain under national competence. Therefore it is critical that EU Member States share experience and best practices and draw inspiration from peers who may be more advanced on the journey towards market development and increased participation.
- **The new EU term presents an opportunity to foster EU-wide non-regulatory action, as well as regulatory proposals where needed, to grow scale and develop capital markets, starting at domestic level.** In particular, purpose-driven solutions such as fiscal incentives to foster the mobilization of idle retail savings should be deployed to materially advance the primary objective of market deepening.
- This approach is also seen as consistent -and supportive of- the **EU simplification agenda.**
- Clearly, renewed efforts should also continue to address remaining barriers preventing more efficient and easier cross-border capital flow and market integration, including those identified by the Giovannini Report.
- Against this background, **It is important to emphasize that the different solutions discussed in this note are expected to yield results at different points in time, making their sequencing and prioritization important.** While the review of the EU securitization framework, for instance, is set to produce immediate effects for the benefit of EU capital markets and the economy as a whole, other measures would need to be assessed through a longer time horizon.
- Against this background, the section below outlines current views from the EBF members on the trajectory and objectives of the Savings and Investments Union.

## **1. Promoting the mobilization of retail savings towards long-term investments**

### **1.1. On the EU long-term savings and investment product:**

- The EBF recognizes the need to encourage retail investment and long-term savings in the EU, but believes that a new common EU savings product should not be seen as the solution. In this regard, in fact, it is necessary to clearly **distinguish between investment products (such as UCITS) and investment savings account structures.**
- **We do not believe that new financial products are necessary to stimulate retail investment.** The market currently offers a wide range of diverse opportunities and solutions for investment. There are already other European products (cf. PEPP) that have so far not proven to be effective in attracting the savings of European citizens. Moreover, within the EU, savers can count on existing schemes for deploying their savings towards financial securities with advantages and incentives in terms of taxation. **It is therefore the market that must continue to identify and design products based on the needs and requirements of investors.** Imposing constraints by regulation risks lead to unsuccessful or worse outcomes, such as 'cannibalizing' existing market investment products thereby reducing diversity.
- **Furthermore, a "one-fits-all" solution at European level may not be conducive to the objective of channeling savings towards investments in innovative firms.** The European

capital market is heterogeneous in terms of number of savers and their level of financial literacy, risk appetite and propensity to invest. Markets are also underpinned by different distribution and advisory models (both from a regulatory and business point of view).

- **The idea of a "simple investment product", usually associated to retail investors / savers' needs for their alleged low costs, has strong limitations.** Indeed, simple products are not always:
  - able to meet the investment and/or portfolio diversification needs of the investor, and can introduce strong constraints to investment's risk/return ratio. From this point of view, it should be considered that the MIFID rulebook sets the intermediaries' conduct rule, ensuring that advised investments are always suitable to the client's profile (in terms of risk, knowledge, experience, etc.);
  - do not meet the objectives of that tranche of retail investors who is generally more likely to purchase securities exposed real economy assets and belong to the Upper Affluent, Private or High Worth Net (HWN). These more sophisticated investors are instead looking for tailor-made investment solutions, which are currently available through different types of products, both reserved and non-reserved in accordance with the legislative provisions.
- **In general, the EBF calls on the European Commission to make a clear diagnosis of the market and to better understand the reality of investors and savers' expectations as well as the regulations imposed on actors** (distributors and manufacturers), and not to focus its approach solely on costs or transparency, but also on product performance.

#### 1.2. The role of a fit-for-purpose regulatory framework, including opportunities for improvement in the RIS

- Among measures that would help retail investors access financial markets more easily, the following are needed:
  - (i) **fostering solutions that help improve (and not weaken) investment advisory and support activities carried out by intermediaries**, as these are essential for guiding retail clients in investing and making their savings available to the real economy efficiently;
  - (ii) **simplifying the pre-contractual disclosures (PRIIPS KID and SFDR disclosures)**, taking into account that it has been demonstrated, including through consumer tests carried out on behalf of the European Commission [Kantar Report , August 2022], that these disclosures are too technical and difficult to be understood for most retail investors.
    - **Connection with the RIS:** *In this context, while certain innovations provided for by the Retail Investment Strategy should be simplified as they introduce significant burden and complexity for financial actors, the whole set of new rules on disclosure seems to be almost useless, as it does not simplify the content of information, but makes it even more complicated.*
  - (iii) **effectively reviewing the current MIFID client categorization criteria which are too rigid and often difficult to meet, with the consequence that a very limited part of clients can be considered 'professional clients' or 'professional clients on request'**. This rigorous approach means that many clients with significant financial resources and with experience and propensity to invest in the long term must necessarily be considered retail clients and consequently cannot access investment products reserved for professional clients. The inevitable negative result is that retail clients are excessively limited in diversifying their investments and that their savings cannot be used to efficiently support the real economy and the growth of EU capital markets.
    - **Connection with the RIS:** *The revision of the criteria for professional clients on request provided for in the Retail Investment Strategy package is insufficient and should be reviewed (or complemented with more effective interventions).*

### 1.3. Leveraging a bottom-up approach: exchange of best-practices and the relevance of pension and fiscal incentive schemes

- **The EBF emphasizes the importance of tax incentives to stimulate retail clients' investments in long-term financial products.** Examples of successful account structures deployed in various Member states (such as the PIRs in Italy or the ISK in Sweden) have shown how common tax treatment of eligible products, for instance invested through an account, as well as fiscal incentives (and their simplicity for the client, for instance in terms of reporting) are fundamental.
- The Commission should consider supporting the **gathering and sharing of information and best practices among Member States, and develop and maintain scoreboards to monitor retail participation in Member States.** Shared information could help other member states understand the features of successful cases and inspire/facilitate them to adopt similar solutions, while retaining full control over the characteristics of their features in line with national rulebooks and tax codes.
- **The Commission could also monitor Member States' use of different best practices that incentivize investor participation.** The Commission's Digital Economy and Society Index (DESI) that monitored the digital progress in Member States from 2014 to 2022 could serve as inspiration for this initiative<sup>1</sup>.
- **Alongside this mechanism, further tools could be placed by Member States as "Individual Savings Plans", that under certain conditions guarantee tax exemptions.**
- **Finally, tax barriers, such as the application of withholding taxes, or at least their lack of harmonization, generate complexity and legal uncertainty for businesses, and consequently hinder investment within the European Union.** In order to improve investment within the European Union and finance its wider policy objectives, genuine freedom of movement for capital is essential.

### 1.4. Promoting investment through pension schemes

- **The EBF believes that improving the adequacy of pensions in the EU requires a strong focus on complementary pension systems, specifically, the second and third pillars.** These systems, which supplement state pensions, are vital for ensuring that individuals can achieve sufficient income replacement in retirement. By strengthening and expanding these pillars, particularly the third pillar (voluntary private retirement savings), the EU can address the growing challenges posed by an aging population and insufficient state pension benefits.
- **Encouraging increased participation in the third pillar is essential for enhancing the activity of pension investors in capital markets, such as pension funds and social security institutions.** This will not only improve the financial security of retirees but also stimulate broader investment in the capital markets, contributing to economic growth and market stability. Efforts should focus on providing incentives for individuals, particularly those in the early stages of their careers, to begin saving for retirement. Effective incentives should be designed to ensure that younger workers are motivated to begin saving early, with clear and comprehensive benefits over the long term. In countries like Germany, where the voluntary occupational pension scheme allows employers to choose between five different implementation channels, it is crucial to preserve the system's flexibility. Due to its complexity, this scheme should remain unchanged and continue to be governed by national regulations, ensuring that it remains tailored to the specific needs and preferences of the local labor market. A one-size-fits-all solution at European level may not be conducive to the objective of channeling savings towards investments in innovative firms.

## 2. Equity investing and private capital (private equity and VC)

- **Improving the role of Private Equity and Venture Capital markets will be essential** in to provide high-growth start-ups and scale-ups with the risk capital they need to scale and innovate.

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<sup>1</sup> <https://digital-strategy.ec.europa.eu/en/policies/desi>

In this context, **the EBF advocates for policies that incentivize equity financing**, ensuring that businesses are able to access the most appropriate form of capital to support their growth.

- **First, we believe that continuing to pursue the public/private collaboration model to target for companies' growth would be extremely useful also in the context of the SIU.** Public actions significantly increase the amount of private capital that can be invested in businesses that have promising prospectives. Equity by private and public market is the best funding instrument for start-ups, scale-ups (and established companies) but it is still an under-exploited resource that can bolster EU competitiveness. For this reason, we believe that European financial resources should be enhanced to favor investing in the capital of start-up / early stage, such as the European Investment Fund (EIF), already investing in closed-end funds, which in turn invest in newly established companies, favoring the building of a European private equity market.
- **Second, Growth-stage venture capital, which supports the path towards the stock market also needs to be improved.** This could be done by strengthening the Invest EU "IPO Initiative", launched by the European Commission under the CMU action plan, that aims at supporting the private equity funds industry, co-investing in EU companies, including starting and scaling up companies, considering public listing on a Regulated Market or on a Multilateral Trading Facility (MTF).
- **Thirdly, banks and insurance companies are restricted by regulatory frameworks that limit their ability to invest in high-risk assets like private equity.** To encourage these institutions to play a more active role in supporting innovation and long-term growth, The Commission should reconsider prudential treatment of banks and insurance companies' exposures to PE and VC. This would enable financial institutions to act as direct or indirect long-term investors, contributing to a more robust and diverse financing ecosystem. In particular, regarding banks, the Commission should reconsider the changes made to the prudential treatment of exposures to listed or unlisted companies' equity (i.e. art. 133 CRR) and revert to a fairer risk weight as set out in the previous regime. This would help banks to support the businesses, not only through traditional lending activity, but also with direct or indirect investments in companies' equity. As a second-best option, we propose at least to review Art. 133, par. 5, CRR, which allow to apply a more favorable treatment of equity exposures under the so called 'legislative programs', which is currently difficult to apply and very limited in scope and draft guidance by ECB are very strict, providing a more flexible approach to include more cases where banks are allowed to apply a 100% risk weight.
- **Finally, realizing returns from private equity and venture capital investments often depends on successful exits, such as through mergers, acquisitions, or initial public offerings (IPOs).** However, the EU market is less competitive than the US market in terms of these exit mechanisms. To improve the attractiveness of the EU as a destination for PE/VC investment, it is crucial to enhance the IPO landscape and increase M&A activity, creating an environment where companies and investors can successfully exit and realize returns. Also, for this purpose as mentioned above we support the increase of long term investors able to collect retail investors savings and support the growth of the European companies.

### 3. Reviving the securitization market<sup>2</sup>

- **EBF advocates for a holistic and timely review of the European securitization framework.** The key aspect for the SIU mentioned in the Letta report is to create a bridge between savings and investments in a less fragmented CMU. We believe that securitization can be one of the tools to achieve this bridge that would bring two benefits: i) broadening and diversifying the pool of assets available, and ii) unlocking banks' balance sheet capacity to facilitate additional financing to both companies and households.
- **The securitization framework must become more practical to simplify the securitization process and more risk-adequate with the aim of attracting more investors to the market in order to achieve a revival. Banks are the trailblazers here.** Specifically:

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<sup>2</sup> EBF comments on the targeted consultation on the functioning of the EU securitisation framework

- Several prudential provisions in the Capital Requirements Regulation (CRR) significantly impact banks issuance of, and demand for securitization. Key provisions are the risk-weight floor, the p-factor, significant risk transfer criteria and liquidity coverage ratio treatment. The reduction in capital requirements for banks is justified by the advancements in the EU securitization framework over the past decade, which have significantly mitigated agency and model risk.
- EBF emphasizes that investors are currently burdened by overly prescriptive and disproportionate due diligence requirements. Article 5 of the SECR introduces provisions that create confusion, impose redundant obligations across multiple parties, and hinder practical investment efforts, resulting in an overall disproportionate burden on investors. The EBF therefore recommends recalibrating Article 5 of the SECR by applying proportional principles-based requirements.
- Transparency requirements imposing significant costs and efforts and the templates are not suitable for purpose. For example, for investors, any overdetailed disclosure reporting is in our view an obstacle to the development of the securitization market and a comprehensive review would therefore be highly necessary. Hence, the EBF advocates for targeted changes ensuring a more efficient securitization reporting.
- As for factors holding back the expansion of the STS standard in the EU, EBF Members emphasize a number of changes to STS criteria that are overly restrictive and costly.
- Mario Draghi in its report also specified that "securitization could also act as a substitute for the lack of capital market integration by allowing banks to package loans originated in different Member States". Unfortunately, securitization is underused in his current EU framework, especially when compared to other markets where its usage is widespread. We believe that swift reforms to implement in the European securitization frameworks would grow both demand (Solvency II with a lower capital cost and SECR with more proportionate due diligence in Art.5 ) and supply (CRR – for instance, reducing the risk weight floor, halving the p factor; LCR), hence developing the SIU through fostering the securitization market.

#### 4. Promote efficient and harmonized Supervision

- **Harmonized supervisory practices are crucial for consistency, efficiency, and competitiveness in EU financial markets.** The EBF therefore support the a supervisory approach aimed at reducing fragmentation (ie, including gold-plating and ring-fencing) as well as containing regulatory burdens. s.
- Secondly, **the EBF is of the view that the mandate of European supervisors should be amended to include a secondary objective of promoting** EU market competitiveness as along with guaranteeing the protection of investors' interests, market transparency and financial stability (similar to adjustments adopted by the US and UK).
- The EBF also recognizes the role of ESMA in direct supervision of large cross-border market infrastructure group. Direct supervision should however not be one of the short-term priorities of the Commission.
- Finally to enhance ESMA's effectiveness, beyond the provisions of Art. 9a, of the ESMA Regulation (EU) No 1095/2010) it should be considered to better clarify the "**no-action letter**" power, allowing it to address urgent issues flexibly and provide relief when specific regulatory requirements hinder market functioning.

#### 5. Promote interoperability and competition in Capital Markets Infrastructure and tackle long-standing barriers in the post-trade space

##### 5.1. Promoting competition among Capital Markets Infrastructure providers

- **The EU's capital market infrastructure (CMI) comprises multiple providers, including exchange groups, trading venues and other types of execution venues, CCPs and CSDs.**

While some got consolidated over decades at corporate level, markets appear to remain more fragmented in terms of opening time and functional rules.

- **A key consideration in this development is the distinctive role of CMI as essential infrastructure providers that often exhibit characteristics of natural monopolies while operating for-profit models.** This structure can contribute to excessive market fragmentation and inefficiencies, as incentives for change may be lacking. The resulting challenges, including increasing costs and complexity, are particularly relevant in the context of cross-border securities transactions within the EU. Addressing these structural dynamics is important for enhancing market efficiency, improving liquidity, and reinforcing the competitiveness and attractiveness of EU capital markets.
- At a general level, the EBF shares views outlined by Commissioner Albuquerque<sup>3</sup> In February 2025 that **barriers and inefficiencies**, which ultimately stifle progress and integration, **can be fostered by rent-seeking behavior.**
- Against this background, **the EBF calls on the Commission to focus efforts on removing barriers, promoting interoperability, and fostering competition.** Most notably, the EBF emphasizes that improving the conditions (and removing barriers) to fair and transparent competition would eventually allow for organic, market-driven consolidation ( as opposed to consolidations by legislation, which should be avoided).
- In the current EU environment, market participants' assets are split across multiple platforms and inefficiencies of post-trade processes and operations drive high frictional costs. To address these issues, we need (1) to facilitate true competition between CMIs through more comparability of their costs and a true freedom in choosing issuance location, (2) an harmonization of operational processes for all CMIs especially CSDs.
- In this context, **a thorough, competition-driven assessment of market bottlenecks** would be useful to identify excessive fragmentation and competition-related barriers.

## 5.2. Tackling long-standing barriers in the field of post-trade

- **The EU and Member States should also continue addressing existing barriers to easier and cheaper cross-border capital flows.** In the post-trade space, areas of focus in this context are:
  - **Legal harmonization:** Addressing divergences identified in the Giovannini Reports, particularly in withholding tax and capital market related insolvency rules, to remove cross-border barriers The introduction of an harmonized definition of "shareholder" for the purpose of shareholder identification, under **the Shareholder Rights Directive (SRD)** regime would be welcome.
  - **Insolvency of capital markets participants:** the EBF continues to call on the European Commission to consider **reviewing the Financial Collateral Directive (FCD) and Settlement Finality Directive (SFD).**
  - **Interoperability:** Enhance CMI connectivity, harmonize processes and policies, and promote best practices in settlement and custody.

## 6. Financial literacy

- Financial literacy is a crucial factor in enabling retail investors to participate in capital markets and mobilize savings for long-term investments. It is a priority that should be advanced over additional regulatory layers in investor protection. **The EBF calls for a concerted effort at both the national and EU levels to enhance financial literacy** and create a robust foundation for informed investment decisions across Europe.
- **To foster a culture of saving and investing, financial literacy initiatives should be developed across the EU**, with particular focus on both the educational sector and lifelong learning. These initiatives must address the unique challenges of diverse national markets, while ensuring coordination at the EU level. While increasing general financial literacy is important,

<sup>3</sup> [https://europa.eu/newsroom/ecpc-failover/pdf/speech-25-421\\_en.pdf](https://europa.eu/newsroom/ecpc-failover/pdf/speech-25-421_en.pdf)

**there should be a particular focus on small entrepreneurs.** These individuals need to better understand the importance of diversifying their sources of financing, particularly through capital market instruments. Promoting corporate education for entrepreneurs can significantly enhance their ability to access funding and navigate the complexities of the financial markets.

- A key objective should be to encourage greater participation in capital markets among adult citizens. To achieve this, the EBF advocates for an awareness-raising campaign that emphasizes the relevance of capital markets for all types of investors, including retail investors and savers. This campaign should involve a wide range of actors, from institutions and companies to banks and professional investors.

## 7. Taxation

- **Tax policy should support competitiveness and economic growth and promote a level playing field, incentivizing the significant investments needed to realize the digital and green transitions and support the development of a Savings and Investment Union.**
- **VAT on financial services:** The current VAT burden on banks creates competitive distortions, particularly with new market entrants. The existing exemption from the 1970s needs updating to align with modern financial activities, including an option to tax transactions individually and extend VAT grouping to the EU level. After multiple failed reform attempts over the past two decades, a comprehensive review is urgently required to ensure neutrality, remove economic barriers, and support digital innovation in banking.
- **Remove Banking Sector-Specific Taxes.** Specific levies on the banking sector should be avoided. Such levies (often unjustified because they have been introduced without analyzing banks' total tax contribution) have a negative impact on their profitability and global competitiveness, hindering their resilience and ability to provide credit in hard times. They would also negatively impact the competitive position of EU banks vis-à-vis non-EU banks. Furthermore, as these levies increase final interest rates applied by affected banks in relevant member states, they also lead to a reduction in the competitiveness of European companies on the global market due to higher financing costs.
- **Remove Country Specific Taxes on Financial Transactions.** Specific financial transaction taxes applied in several member states should be avoided. These specific taxes obviously cause distortions of the single market in banking and investment services and represent an obstacle to its further development. Moreover, such taxes could accidentally support non-transparent cash transactions settlement.
- **Corporate Taxation:** The EU should focus on simplifying tax rules rather than adding complexity. The introduction of the minimum tax in 2024 should be paused pending the U.S. response, and Pillar Two rules suspended if they impose heavy penalties on European companies. ATAD measures, especially CFC rules, should be reassessed.
- **Tax Reporting:** Certain reporting requirements have become redundant and should be revised or removed. A review of DAC6 and FASTER reporting rules is necessary to balance transparency with efficiency and data protection.
- **Withholding Tax Procedures:** While the FASTER directive aims to streamline withholding tax processes, it requires careful review to ensure real simplifications for investors and financial intermediaries, considering industry constraints.

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