Ms Mairead McGuinness
Commissioner
Financial services, financial stability and Capital Markets Union
European Commission

Brussels, 18 December 2020

Dear Commissioner McGuinness,

On behalf of EFAMA[1], the voice of the European investment management industry, I would like to congratulate you on your recent appointment as EU Commissioner in charge of financial services, financial stability and the Capital Markets Union.

We are keen to continue with you the dialogue engaged with your predecessor on ways for our industry to further contribute to key objectives of the Commission, including the building of an effective CMU that the pandemic has made even more relevant, necessary and urgent than before.

We fully support the ambitions of the new CMU Action Plan. Properly executed, it has the potential to boost the fortunes of Europe's pensioners and savers by creating opportunities for them to share in the upside of Europe's economic recovery and to create more efficient and better integrated European capital markets, which is key to finance European innovation as well as the transition towards a more sustainable and digital economy.

While we recognise that the Action Plan consists of a number of short and medium-term actions that are closely interconnected and will only deliver tangible results if undertaken collectively, **we would encourage the Commission to put the focus on the following objectives which, in our view, are key to the success of the CMU project:**

1. I**ncreasing retail participation in capital markets is an essential component to build an effective CMU**. A recent EFAMA report[2] confirms that the vast majority of households in most EU countries keep a disproportionate portion of their savings in bank deposits, thereby depriving themselves of the possibility of achieving a higher return on their long term savings and in particular a better retirement income.

   While **we support the various actions foreseen in the Action Plan**, we stress the importance of **effective communication with investors** and thus the **urgent need to fix the well-documented PRIIP KID flaws and to prolong the current UCITS exemption until this has been done**.

   The PEPP has the potential to play an important role in d**elivering retirement savings to millions of European savers**, while at the same time contributing to the success of the CMU

[1] EFAMA represents 28 Member Associations, 60 Corporate Members and 24 Associate Members. At end Q3 2020, total net assets of European investment funds reached EUR 17.6 trillion. These assets were managed by more than 34,200 UCITS and almost 29,400 AIFs. More information is available at www.efama.org.

[2] *Participation in Capital Markets – Assessing the current state and measuring future progress* (EFAMA - September 2020), available here.

through the **creation of new pools of long-term capital** that can help finance the European economy. However, to achieve this, we draw your attention to the **necessity to make the economics of the PEPP viable for providers,** in particular by properly calibrating the 1% fee cap for the basic PEPP (see also appendix for further details).

2. A second objective should consist in **improving access to financial and non-financial information and addressing the issue of data costs**.

   Robust ESG data is key to identifying and assesssing sustainability factors in lending and investment activities and in enabling investors to engage with companies about sustainability issues. It is made more urgent by the introduction of new disclosure obligations on financial market participants. This should also translate into reliable and comparable information provided by financial services institutions to their clients, ultimately encouraging the channelling of investment into, and a transition to, a more sustainable economy resulting from a growing demand for sustainable investment products.

   We **welcome** in this regard the Commission's envisaged action to create as a matter of priority an **EU Single Access Point** to enable central access to financial and non-financial public corporate disclosures, and stress the **importance of the NFRD review**.

   Also, more widely, it is **essential to tackle persistent problems regarding the high cost of various types of data, such as market data, index data, credit rating agencies data and, increasingly, ESG data as well**. This is a significant market failure harming investors, consumers and investment firms in the single market, which should be addressed with determination.

3. Finally, **the attractiveness of the European investment management sector in a global environment needs to be maintained and improved**. Europe needs to remain at the forefront of innovation and open to flows of knowledge, ideas, capital and investment with the rest of the world, with the ultimate benefit flowing to European citizens and those seeking capital.

   The **ever-increasing regulatory costs are a source of major concern**. We therefore plead for an effective, yet proportionate and agile, regulatory environment and **caution against an overhaul of the Level 1 AIFM and UCITS directives in the absence of clearly identified material shortcomings or market failures**.

   Besides, we stress the importance of **promoting the development of international regulatory standards** as global issues demand global responses and to avoid market fragmentation. This is particularly relevant in the area of sustainable finance and disclosures and we commend the Commission for the leading role it plays in the context of the International Platform on Sustainable Finance.

You will find attached hereto a table listing a number of specific actions -some of which are not part of the new CMU Action Plan- which have the potential to make a significant contribution to those three key objectives for a successful CMU.

We would welcome the opportunity of a meeting with you or members of your team in the coming months to explore some of these ideas in greater detail and to discuss ways for our industry to further contribute to the objectives of the Commission.

I wish you a Merry Christmas and a healthy and fulfilling New Year.

Yours sincerely,

Nicolas Calcoen
President

KEY ACTIONS TO REACH THE OBJECTIVES OF THE CMU FROM AN INVESTOR PERSPECTIVE

Objective 1: Increasing retail participation in Capital Markets	
Fix the PRIIPs KID flaws	Effective communication with investors is a key component of trust. A solution should be found as soon as possible to fix the current shortcomings of the PRIIPS KID, before the end of the **UCITS exemption** (31 Dec. 2021). Such exemption **should be prolonged until a viable solution is found** and should include sufficient lead-time for the industry to implement it.
Make the economics of the PEPP viable	We are deeply committed to the success of the PEPP and have always sought to bring forward proposals to create the necessary conditions for a successful outcome for European savers. Today, we are very concerned that **the approach proposed by EIOPA to include all costs under the 1% fee cap for the Basic PEPP, except the costs of capital guarantees, will lead to the failure of the PEPP**. Our view is that the most efficient approach to address this problem would be to exclude the initial cost of advice at least until the first review, by which time EIOPA will have gathered enough evidence on the actual level of costs and fees and the availability of PEPPs. This would make the economics of the PEPP viable for all potential providers and increase competition. We understand that the main constraint on following this approach is the view that the PEPP Regulation does not allow the exclusion of the one-off initial advice. We disagree with this interpretation because the Regulation foresees that the PEPP saver shall choose an investment option after "*having received the relevant information and advice*" and with the understanding that *"the costs and fees for the Basic PEPP shall not exceed 1 % of the accumulated capital per annum..* This means that the advice process can be separated from the choice of the investment option. Hence, the cost of the advice that can lead the PEPP saver to choose the Basic PEPP can be excluded from the fee cap. This would ensure PEPP availability for savers across Europe on a fully advised basis and provide much-needed capital to a European economy that will need significant support in the coming years. Providing good support and advice to EU citizens will be an important component in encouraging them to participate in capital markets.
Pension Dashboard and auto-enrolment practices	We welcome the decision taken by the Commission to develop pension dashboards and best practices for the set-up of national tracking systems for individuals. There is also ample evidence that pension auto-enrolment is powerful to overcome people's unwillingness or lack of interest in saving enough for retirement. Hence, we hope that the study on auto-enrolment practices will encourage a greater number of Member States to introduce this mechanism in their pension systems. In our view, this **study should discuss what should be the best default investment option to offer in auto-enrolment mechanisms,** in particular in a low-for-long interest rate environment, taking into account the arguments that have led to the introduction of life-cycling as an appropriate investment strategy for the Basic PEPP.
Adapting the ELTIF framework	We welcome the Commission's recently launched ELTIF consultation as an opportunity to alleviate some of the regulatory constraints hindering the take-up and potential of the ELTIF product. Such adaptions should include i) **easing**

	the retail distribution challenges stemming from the parallel incidence of the MiFID II target market requirements for retail investors, as well as from the quantitative limits around retail participation, ii) **granting ELTIF tax neutrality at fund level as well as at underlying investments' level throughout the Union** (as otherwise ELTIF will not succeed in developing a true pan-European investment market) and iii) **enlarging eligible investments** to allow a wider range of fund-of-fund options so that investors can more easily access cross-border investments. In addition, we support the creation of a second option within the ELTIF framework, allowing the transformation of its structure from a closed-end structure into an open-end (or "evergreen") one.
Encourage employee share ownership plans	The European Parliament has recently called on the Commission to **explore initiatives to incentivise such plans**. We subscribe to that and feel it should have been part of the new CMU Action Plan as a way to contribute to developing an "equity culture" among European retail investors.
Empower citizens through engaging them in financial matters	We welcome the recommendations included in the Action Plan in this field. It is well established that a lack of sufficient financial engagement and literacy in most Member States prevents households from understanding, for example, the importance of riding out short term volatility for long term benefit and the impact of inflation on the value of their bank deposits. Furthermore, recent research indicates that, by creating barriers for effective participation in capital markets, low financial literacy exacerbates wealth inequality. We recognize that increasing financial engagement and confidence in dealing with financial matters is an enormous task and that while there is a role for the education system, which is a competence of Member States, it is also important to give nudges and support to individuals at points in their lives when they are open to thinking about their money, including through financial "health checks". As stressed by the High-Level Forum on the CMU, the Commission also has an important role to play alongside Member States. In this respect, we hope that the Commission will decide to strengthen the proposed EU framework on financial competence by **developing an EU-coordinated approach for Member States to set up tests on financial competence to monitor the progress made to strengthen financial education in school curricula**. We also welcome the Commission's decision to assess the appropriateness of extending the approach taken in Article 6 of the Mortgage Credit Directive to investment-related legislation (MiFID, IDD, PEPP, UCITS and PRIIPs).
Monitoring progress	We welcome the intention of the Commission, supported by the Council conclusions, to create a set of Key Performance Indicators (KPIs) to measure progress towards CMU. **A specific KPI should be developed to track progress made by European citizens in adequately managing their financial savings**. In our report on household participation in capital markets (see footnote 2), we propose monitoring the evolution in each Member State of the ratio between the household savings invested in capital market instruments and those placed in deposits. Such monitoring would strengthen peer pressure and incentivise Member States to take action to support the future financial well-being of their citizens.
Objective 2: Improving access to financial and non-financial data and address the data cost issue	
Create an EU Single Access Point to access financial and non-	We support the initiative to set up an EU Single Access Point (ESAP), providing investors with seamless access to financial and sustainability-related company information. A single portal for financial and ESG information for companies based across Europe would make investment decisions and due diligence easier and more scalable, reducing cost for investors and

financial information	making European investments more attractive to global capital. As the ESG data gap remains a key challenge to achieve the goals of the EU sustainable finance agenda, we believe that the establishment of an EU-wide platform has the potential to improve comparability, increase transparency, lower barriers and costs, strengthen investors' confidence and attract new players. **The European data register should focus on ESG disclosure in line with the revised NFRD and the EU taxonomy, starting with climate change adaptation and mitigation objectives, as well as ESG data necessary for financial market participants to comply with the SFDR and low-carbon benchmarks regulation.** It should include relevant ESG information already collected by European and national institutions such as governments, central banks, statistical bodies, etc. Data should be made available to users without charge and in raw, structured and machine-readable format.
NFRD review	As regards ESG data, the review of the Non-Financial Reporting Directive (NFRD) should be a priority, recognising the fact that reporting requirements need to be considered from a global perspective. Data availability and quality is crucial, we therefore support the aim of the NFRD review of ensuring that companies efficiently disclose accurate information. It is also essential to agree at European level on an harmonised standard of reporting ensuring that financial markets participants can cope with the new requirements stemming from the various legislations on sustainable finance (SFDR, Taxonomy …).
Address the issue of cost of data in a holistic manner	This issue should be tackled as a matter of priority by effectively enforcing existing provisions in applicable EU regulations (e.g. 'reasonable commercial basis provisions' under MiFID/MiFIR). In addition, consideration should be given to the opportunity of adopting a more holistic/transversal approach to the regulation of different types of data providers, with a view to address common issues asset managers are facing as users of various types of data. This holistic approach should not only be focusing on costs (and lack of transparency on fee setting models) but should also address other issues such as reliability of data and related responsibility of data providers, or transparency of methodologies used. It should also aim at preventing oligopolistic behaviors to the detriment of data users and end-investors.
Create an EU Consolidated Tape	While a well-designed consolidated tape infrastructure would not solve the data cost issue, it has the potential to democratise access to European markets by providing all investors -including retail investors- with a comprehensive and standardised view of the European trading environment. It is particularly important if a "polycentric" model emerges, in order to ensure that markets are deep and liquid. We therefore support the Commission's planned action to establish an effective and comprehensive post-trade consolidated tape. In our view, **this Consolidate Tape should cover all instruments, be financed on a pay-as-you-use principle, and be overseen by ESMA**.
Objective 3: Preserve the competitiveness of the EU asset management industry on the global scene	
UCITS and AIFMD reviews – ***if it ain't broke, don't fix it***	The ongoing review of AIFMD should be targeted only at addressing material shortcomings which are clearly demonstrated and that cannot otherwise be addressed through supervisory convergence or Level 2 harmonisation. In this respect, the current framework has proven resilient during the Covid-19 crisis (notably with respect to supervisory reporting requirements, liquidity management tools, …). Therefore, **we do not see the need for an overhaul of the AIFMD and / or UCITS framework.** Besides, in the absence of sound evidence of market failure, we see no reason for tightening the already strict

	delegation conditions to entities based outside of the EU (and also within the EU) which are functioning well and are essential for investors to continue to benefit from access to world leading expertise and economies of scale.
Facilitate WHT tax relief at source	Withholding tax relief procedures remain very complex and constitute an obstacle to cross-border investments and, hence, to the good functioning of the EU Single Market. **We therefore welcome the action envisaged by the Commission to propose a common, standardised, EU-wide system for withholding tax relief at source**. Our industry aims to launch a pilot test to explore how technology can help us to create the aforementioned WHT relief at source system. **In this context, EFAMA recently presented to the Commission its WHT strategy (long-term vision agreed by the industry) and Blockchain for Taxes project. This strategy is aligned with Action 10 of the CMU Action Plan,** as well as with Action 8 of the tax package for fair and simple taxation. The aim is to build an EU wide multilateral entitlement matrix (allowing smart contracts to be co-signed by both investors and tax authorities).
Competitiveness of the European fund industry also depends on technological innovation and on the success of the EU Digital Finance Action Plan	**The DLT/blockchain pilot regime** should be widened to fund distribution (and enlarged in its scope of equities and bonds). **Crypto-asset market**: EFAMA is strongly supportive of that initiative, as it will allow to offer this new type of assets under a regulated and safe framework to fund investors across the Union. **Digital operational resilience**: we acknowledge the need for regulating digital service providers which currently frequently impose unilaterally their conditions on asset managers. **Open finance and digital ID initiatives** should help the on-boarding of investors and the gathering of information about their financial situation, supporting their financial planning.