Council of the
European Union

Brussels, 8 November 2024
(OR. en)

15378/1/24
REV 1

EF 346
ECOFIN 1270
FSC 7

NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Financial Service Committe's contribution to the follow-up work to the Eurogroup statement on the future of the CMU

Brussels, 15 October 2024

FSC contribution to the follow-up work to the Eurogroup statement on the future of the CMU

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1. Sustainable finance

On 11 March 2024, the Eurogroup in inclusive format (EG+) issued a Statement which called for the swift introduction of a wide range of measures to bring about the completion of the Capital Markets Union (CMU). This was followed by the Euro Summit of 22 March 2024, and the European Council of 17-18 April 2024 pleading to advance work without delay. In the area of sustainable finance, the EG+ considers the following measures to be urgent:

> March 2024 EG+ Statement: *9. Bolster the EU's edge in sustainable finance by scaling up the impact of the EU framework in place and fostering the use of the provided finance toolkit by market participants to support their transition efforts.*
>
> *We invite the European Commission to continue its efforts to enhance the usability of the EU sustainable finance framework and to support stakeholders with its implementation and, where appropriate, to take steps to reduce administrative burden through enhancing clarity, consistency and ease of use based on an appropriate impact assessment.*
>
> *We also invite Member States to step up their efforts in supporting market participants in the uptake of sustainable finance tools and to address national barriers which slow down the use of the common EU framework.*

Member States were consulted at the beginning of July 2024 about national practices aimed at enhancing the operationalisation of the existing EU sustainable finance framework and accompanying best practices. 26 Member States submitted their inputs, covering the following aspects of the framework: Sustainable Finance Disclosure Regulation (SFDR), green bonds issuance, Corporate Sustainability Reporting Directive (CSRD), sustainability in banking, sustainability in insurance and miscellaneous other aspects.

a. Sustainable Finance Disclosure Regulation (SFDR)

After more than three years of application of the first piece of the puzzle of Union's sustainable finance legislation, the general impression by the majority of Member States is that SFDR played an important role in providing for disclosures that enabled consumers and investors to take better-informed decisions in relation to their investments in sustainable products and entities, and therefore contributed to the rechanneling of funds into sustainable economic activities. Only one Member State stated that SFDR is clearly not fit for the purpose. The main challenges encountered in the implementation of the SFDR are in particular the following:

- Data unavailability, especially to smaller market players, generating disproportionate costs for them if they decide to obtain the missing data from commercial rating agencies. One of the consequences noted by some is that sometimes, when faced with this extra cost and effort, financial market participants (FMPs) refrain from making any sustainability claims. The granularity and scope of reporting obligations is considered excessive by many Member States, especially when the final users of the data are retail investors;
- Inconsistency with other elements of the Union's sustainable finance framework, in particular the Taxonomy Regulation, the Benchmarks Regulation and the Corporate Sustainability Reporting Directive (CSRD), especially what approach should be adopted in the SFDR regarding the materiality assessment outlined in the ESRS. Sustainability preferences in MIFID and IDD are not properly linked to SFDR and are therefore not understandable to retail investors[1];
- No minimum criteria for disclosing at the product level under the general regime (Article 6), products promoting environmental or social characteristics (Article 8) and fully sustainable products (Article 9). The definition of "sustainable investment" in Article 2(17) is too vague. The lack of such minimum criteria is due to the fact that SFDR was never conceived as a labelling framework, and the intention was to cover the largest possible range of products to ensure the broad availability of information for investors. However, certain

[1] EIOPA indicates that most importantly, consumers are required to specify in their preferences what "minimum proportion" of investments of the product should be sustainable, while it is difficult for consumers to come up with a number that would be relatable to consumers. A more intuitive way to collect the information from consumers on the level of ambition of the products should be designed, and consumer tested.

issues arise due to the fact that SFDR is in practice often used as a labelling scheme, which opens the way to potential greenwashing and sometimes greenhushing;

- General complexity and heavy reporting burden;
- Lack of support for transition products and objectives which should be reflected in the sustainable finance framework;
- Opacity and difficult overview over the websites of FMPs published to fulfill the SFDR requirements, especially with regard to FMPs belonging to larger financial groups, who publish financial statements on Principal Adverse Impact (PAI) non-consideration.

More specific challenges raised include the following aspects:

- Specific issues in relation to the Green Asset Ratio as defined in the Delegated Act under the EU Taxonomy Regulation (including a proposal by the industry to postpone the introduction of additional reporting requirements for companies reporting under the CSRD), to products investing in non-EU or non-listed assets, derivatives, UCITS, AIFs, IORPs and MOPs;
- Specific issues in relation to the "ESMA Guidelines on fund names using ESG or sustainability related terms in their names", given that different naming rules apply to SFDR in-scope financial products, and that there may be consistency issues with the rules under other EU legal acts (for example the EU Green Bond Standard) or the requirements applicable to other regulated financial market participants (for example Benchmark providers);
- Magnified challenges for the SME sector in relation to the general and specific issues raised above.

To address the above-mentioned challenges, the following adjustments of the SFDR have been suggested by Member States:

- Support on data availability and data-processing, especially for SMEs, at Union and national level, and streamline reporting/disclosure requirements to lower administrative burden;
- Clarification for SFDR products disclosing under Article 8 and 9 with an accompanying materiality assessment, their either replacement by three categories (sustainable products, low-impact products and transitional products) or a limited number of KPIs. Preferably these new concepts should be developed with reference to EU Taxonomy, with the aim of incentivizing transition financing. The reference to EU Taxonomy should take due account

of the differences in scope between the SFDR and the Taxonomy Regulation. The labels or categories should be simple and clear to ensure consumers understand the purpose of the products. The rules for the categories should have a clear objective and criteria to reduce greenwashing risks. They should also be designed in a manner that does not restrict innovation and allows for different sustainability strategies;

- Sustainability preferences under MIFID and IDD should be aligned with the new concepts included under SFDR to assist retail investors to take informed decisions, and the draft changes should be consumer tested before being put forward in the legislative process; update of the Key Investor Document (KID) under the current Retail Investment Package with a very short description of ESG characteristics of a financial product to assist retail investors might be a short-term solution;
- Remove inconsistencies and overlaps on the disclosures of Principal Adverse Impacts with other Union legislation, especially in relation to entity-level reporting, taking into account the future ESRS under CSRD.
- Include the simplification of existing disclosure templates when amending Articles 8 and 9.

The main tools that assisted National Competent Authorities (NCAs) to overcome encountered supervision and enforcement challenges cited by the Member States included:

- Different ways of outreach to, cooperation, collaboration and networking with FMPs in the national market;
- Common Supervisory Action launched by ESMA in 2023;
- Cooperation and exchange with other NCAs and ESAs (for example ESMA's Sustainable Finance Learning Hub);
- Continued publication by the Commission and ESAs of Q&A and opinions on different problems encountered;
- Increased use of sophisticated tools such as SupTech and Natural Language Processing (NLP) and use of various external data-sources to verify the truthfulness of claims.

b. Green bonds issuance

Green bond issuance increased significantly in the EU over the last years, driven in part by the need to finance the European Green Deal. Various types of entities — government, corporate, supranational, and subnational entities — have been issuing green bonds to a smaller or larger

extent. Of the 26 Member States which replied to the questionnaire almost all register green or sustainable bond issuances:

- 16 report sovereign issuances at national level (out of the 16 Member States, 5 small-sized Member States indicated issuance volume of approximately EUR 17 billion altogether and 3 bigger-sized Member States in the volume of approximately EUR 106 billion);
- 9 register sovereign issuance at subnational (regional or municipal) level;
- in almost all Member States green bonds are issued as corporate or financial bonds.

Almost all of the issuing Member States follow the ICMA Green or Sustainability Bond Principles, which are widely used on global markets. A smaller number of issuances use the Climate Bonds Initiative standard. 8 Member States report also having regard to EU Taxonomy – to the extent possible and on a best effort basis – and 2 to the UN Sustainable Development Goals (SDGs).

Regarding the main sectors that issue green bonds, this situation varies depending on the Member State. While in some Member States sovereigns take the place of largest issuers, in others (a vast majority) the biggest issuers are fund managers, banks and corporates, followed by insurance and pension funds. In terms of investors, these are most commonly fund managers, banks (including central banks) or insurance and pension funds.

From 21 December 2024, issuers will be able to use the European Green Bond Standard (EuGB), which entered into force end of 2023. Most Member States surveyed expect that ICMA principles and EuGB can coexist together as the EuGB will be the gold standard and ICMA a principle-based disclosure framework (thought there is a risk that it could lead to double standard). However, only 3 of them mention that they have concrete plans for EuGB issuance or EuGB update of the issuance framework. Further 3 Member States indicate there is interest in issuing EuGB once it starts applying, but that for the moment this is highly uncertain due to lack of clarity when it comes to requirements and costs.

Due to its voluntary nature EuGB is not perceived as harmful, but almost all Member States that replied to the questionnaire pointed to obstacles to its use, namely:

- Difficulty of <u>applying EU Taxonomy to sovereign issuances</u> – due to its granular nature, it is more suited to corporates and cannot be universally applied to all public expenditures;
- Hence, a <u>general lack of eligible projects</u> for the allocation of proceeds;

- Lack of available data to demonstrate compliance with the DNSH principle;
- Lack of readiness on the side of external reviewers to check EuGB alignment and high cost of their service;
- Requirement to publish a prospectus (sovereigns are exempt from this requirement);
- Heavy post-issuance requirements;
- Currently no cost advantage (i.e. no or only a marginal greenium) in issuing green bonds.

Most Member States that replied see positive impacts of green bond issuance at national level:

- Positive impact on the environment with quantifiable greenhouse gas emission reduction results and contribution to the financing of green projects contributing to climate change mitigation;
- Raised awareness of environmental challenges and ESG topics;
- Development of sustainable markets with maximum price transparency (greenium);
- Closer balancing between green use of proceeds and green budgeting practices;
- Enlargement and diversification of investors' base and funding sources;
- Positive signal in terms of transparency and reputation;
- Alignment of corporate goals with transition to greener economy;
- Enhanced cooperation between ministries, more mutual understanding.

At the same time, some Member States point to negative experience at national level due to for example lack of financial incentive to issue green bonds compared to non-green bonds; overall low issuance frequency of bonds, limited investment opportunities, high tax and borrowing rates, and geopolitical uncertainties. High administrative costs, low data availability and risk of greenwashing are another source of concern.

c. EU Taxonomy

The EU Taxonomy Regulation entered into force in July 2020. Since November 2023, technical screening criteria have been set for economic activities that can make substantial contribution to all 6 Taxonomy objectives.

Member States report that EU Taxonomy framework is mostly used by the private sector, primarily by institutions that have the obligation to report Taxonomy information (financial and non-financial

companies falling under the scope of NFRD, as amended by the CSRD, and banks publishing their Green Asset Ratio, GAR). However, there are also actors (both lenders and investors) out of scope of EU regulation that apply Taxonomy on a voluntary basis to assess the environmental sustainability of projects and create a green portfolio.

The following best practices have been identified by the Member States to promote application of EU Taxonomy beyond its mandatory use:

- National label for green financial products containing a voluntary bonus for the inclusion of Taxonomy-aligned assets;
- Interest expenses for the financing of infrastructure projects of public interest benefit from exemption from interest barrier if they are not harmful to climate (as defined by the DNSH criteria for the objective "Adaptation to climate change");
- The significant contribution criteria of the Taxonomy are being used in corporate financing departments to define green investments and progress regarding companies' sustainability;
- Some DNSH criteria are being used to harmonize risk-management practices, for instance by requiring risk analysis of the property in housing;
- Green preferential capital requirement programme for credit institutions, which uses EU Taxonomy as a legal basis;
- National Promotional Banks offering preferential financing for companies that according to EU Taxonomy are planning investments that make a significant contribution to achieving environmental and climate goals;
- Credit institutions updating its green bond framework to align it with Taxonomy or earmarking loans for specific green projects in line with the technical screening criteria;
- Green Finance Alliance established where strategic definition and annual disclosures for the expansion of green activities are mandatory for the members of the Alliance, with EU Taxonomy recommended as a point of reference.

Taxonomy is also used increasingly by the public sphere to identify green public investments as part of green budgeting exercise, perform DNSH analyses of investments required under various EU funds such as the RRF, Cohesion funds, or to set eligibility requirements for public guarantees for transition bonds or green bonuses for export guarantees.

Member States perceive positive effects of EU Taxonomy, which are: increased level of transparency of sustainable reporting; enhanced comparison and benchmarking of companies; more

information available to investors that want to invest sustainably; better access to funding for those companies that are compliant; and mitigating the risk of greenwashing.

At the same time, undertakings that are obliged to report under EU Taxonomy perceive the requirements as too complex and administratively burdensome (and costly) and technical screening criteria as too ambitious, while not covering enough activities. As a result, undertakings active in economic activities which are currently excluded from the Taxonomy framework are not able to fully track their commitment towards climate transition.

One Member State reported that Taxonomy delegated acts include unclear obligations and do not take Member States' characteristics into account (e.g. geographical location). Another Member State pointed to the fact that Taxonomy does little to incentivize transitional investments.
It was also mentioned by 2 Member States that GAR may not fully represent the financial support that banks give to the climate transition. In several Member State the supervisory authority noticed that companies are reporting under EU Taxonomy in different ways, which makes it hard to assess and compare results.

To ease the implementation of EU Taxonomy, the following measures were suggested:

- Defining a Taxonomy that is straightforward, aligned with what is defined in non-EU contexts and neutral from technological point of view, also in order to enable the use of the EU Taxonomy for investments in assets outside of the EU;
- Taxonomy should be expanded to cover all economic sectors (e.g. mining, processing, transformation of critical raw materials, etc.);
- A simplified framework should be established for SMEs;
- There should be a common definition for green loans (based on Taxonomy and simplified for families and SMEs);
- Adjustment of Green Asset Ratio (GAR) to better appreciate banks' financial support to climate transition (e.g. by excluding lending to SMEs from the scope of application of NFRD and CSRD and inclusion of SME loans deemed aligned with the Taxonomy);
- Comprehensive information repository at national level detailing each economic activity listed in Taxonomy and the evidence required to substantiate compliance;
- Creating an FAQ and other supporting tools for interpretation of technical screening criteria at national level in different sectors;
- Establishing a digital platform at EU level for verification, monitoring and reporting.

When it comes to measures at national level to implement EU Taxonomy, a number of Member States mentioned having established national platforms and strategies on sustainable finance, producing guides on regulatory tools (EU Taxonomy and others) to support transition financing, setting up sustainable finance forums gathering market participants, and other capacity building activities. Several Member States mentioned making use of the EU's Technical Support Instrument for this purpose. One Member State outlined plans at national level to revise guidelines for its ecolabel to introduce a mandatory Taxonomy criterion, while another Member State explained that Taxonomy is not included in national labels because it does not cover all areas (e.g. agriculture) and is not perceived as a relevant tool for investments outside the EU. To facilitate transition finance, a number of Member States have export credit agencies, national development banks and investment funds offering a wide range of financial instruments (including green loans and guarantees) to support transition finance.

d. Corporate Sustainability Reporting Directive (CSRD)

CSRD provides for sequenced deferred start of application of its different provisions, obliging Member States to transpose it by 6 July 2024. Several Member States are still in the process of adopting the relevant transposition national acts.

Against the backdrop of ongoing transposition, only a few transposition challenges have been identified:

- Increased administrative burden, in particularly for companies that were not previously subject to Non-Financial Reporting Directive (NFRD);
- The possibility of providing for Independent Assurance Service Providers (IASP) when transposing prompted discussions in several Member States;
- Inconsistency in reporting requirements with the SFDR, Taxonomy and Corporate Sustainability Due Diligence Directive (CSDDD) frameworks, among others in relation to transition plans;
- Banking: while credit institutions are subject to CSRD, a number of their clients (non-listed SMEs) are not which means those institutions had to take concerted dispositions to collect ESG data from those clients;

- Some issues with the single electronic reporting format, including with the tagging obligation[2];
- Absence of common supervision and harmonized sanctions for the violation of the CSRD.

Several Member States presented ideas how implementation of CSRD could be facilitated at EU level, including reducing administrative burden:

- Need for Commission's Q&A and guidance by EFRAG ,ESMA and EBA to clarify certain provisions, as well as continued collaboration, training and exchange of information of the ESAs with NCAs will be key in this early transposition phase, especially in relation to the value-chain issues;
- Consider a Commission inquiry on the quality and accessibility of reliable information from proxies, especially in relation to scope 3 emissions and biodiversity, with the aim of assessing the need to regulate those proxies and the need to develop a public EU sustainability database;
- Development of open access software and databases for the preparation and collection of sustainability statements;
- "Pedagogical" implementation of the new rules in the initial period, without enforcement action;
- Reporting standards for listed SMEs should be proportional and based on voluntary standards for sustainability reporting by SMEs;
- Further streamlining of reporting/disclosure templates and data fields, notably by focusing reporting requirements on the most relevant indicators for each company depending on their activities and investor needs;
- Sectoral ESRS developed by EFRAG should be sufficiently granular, but should refrain from adding additional weight to reporting obligations;
- Review of SFDR as regards entity-level reporting with a re-focus on useful sustainability information reported by investee companies.

Moreover, Member States have taken or are considering taking the following supporting measures aimed at assisting companies with the implementation of the new reporting requirements:

[2] ESMA and EFRAG should be mindful of creating unnecessary burdens from tagging obligations in the XBRL-taxonomy and consider a gradual implementation.

- Active communication and educational initiatives by NCAs targeting different types of companies subject to the reporting obligations, including with the aim of incentivizing SMEs to decide on voluntary reporting;
- Possibility of technical assistance under the DG Reform's TSI 2025 flagship project "Improving sustainability reporting for businesses";
- Use of different means of outreach to the industry, such as hubs, fora, platforms, webinars and even one-on-one guidance to help companies prepare their sustainability reports.

e. Sustainability in banking

EBA's recent findings show that on EU level, on average, green loans account for 4.5 % of credit institutions' total loans, therefore reflecting a limited scope of ESG-related bank offerings in the EU, while the situation greatly depends on individual banks' initiatives.

Member States reported a great variety of types of ESG-related products offered by banks, with differing volumes and distribution in Member States:

- Green and sustainable loans: green mortgages and loans for green renovation of real estate with lower interest rate; loans for financing of renewables, such as charging stations or solar panels; electromobility loans; loans for low-carbon agriculture; "green revolving credit facility" (RCF), whereby the funding is not intended to finance sustainable projects, as the purpose of the credit line is not set, but the obtention of the loan is based on environmental, social and good governance (ESG) rating of the company;
- Green and sustainable bonds;
- Green savings accounts, green term deposits;
- Green UCITS, structured products, mutual funds, investment certificates;
- Co-financing projects under several State- and EU-funded programs, such as national Recovery and Resilience Facility (RRF);
- One MS mentioned a free bank information service on sustainability of products bought by credit cards.

For the time being, banks are mainly using internal classification systems of what is a green loan, whereby they partly rely on EU Taxonomy to determine the activities that are considered "green" from an environmental perspective.

ESAs and NCAs are clearly preoccupied by risks of greenwashing although cases remain limited for the time being, and are regularly carrying out comprehensive screening exercises, focusing in particular on advertising of products under Articles 8 and 9 SFDR, as well as on claims in entity-level sustainability reporting, applying a risk-based approach. There were a few cases in which greenwashing was suspected or confirmed, but they have all been solved either after an intervention by the NCAs or further to judicial proceedings initiated by other public authorities.

Member States reported the following measures aimed at enhancement of ESG-related products offerings in the banking sector:

- Further awareness-raising and promotion of integration of sustainability risks in banks' internal governance, business strategy and risk management. In particular, incorporating forward looking methodologies in risk assessment and supervision, especially regarding physical and transition risks;
- Guidelines on supervisory expectations regarding the integration of sustainability risks, based on the ECB Guide on climate-related and environmental risks;
- Continued analysis of what is already on the market and possibly considering ways to promote further development of the market;
- Public subsidy schemes for incentivizing green investments through interest rate reductions;
- Possibly consider a unified definition of green mortgage in the future;
- Financial education aimed at children, youth and adults, as well as SMEs;
- Regular dialogue with the banking sector.

f. Sustainability in insurance

The insurance sector can play an important role in in the mitigation and adaptation to climate change or sustainability risks, through their investments, products and services. EIOPA's findings show that the most common ESG-related life insurance products offered in Member States are unit-

and index-linked products disclosing under Article 8 SFDR (around 52% of insurers' investments backing these products) and, to a lesser extent, disclosing under Article 9 SFDR (around 3% of insurers' investments backing these products). Sustainable life insurance products are to a much lesser extent represented by traditional life insurance products with profit participation components. Some examples include the following:

- An IBIP having a sustainable investment objective;
- An IBIP promoting environmental and/or social characteristics;
- An IBIP making taxonomy-aligned investments;
- An IBIP considering principal adverse impacts on sustainability factors.

Despite a lack of standardized understanding of what constitutes a sustainable non-life product, EIOPA's findings show that out of 46 non-life insurance manufacturers that were surveyed, 16 classified some of their non-life insurance products as promoting ESG features. However, these products seem to be offered to a more limited extent than life ones. Some examples include the following:

- Insurance for motor vehicles (with rewards for policy holders if they opt for repair instead of replacement; insurance for electric cars that offer cheaper premium);
- Household insurance (with special conditions when a thermal isolation is set up, for customers who have A+, A++ houses);
- Protection against climate risks;
- Protection throughout the lifecycle of renewable energy projects;
- International health insurance (with discounts for encouraging low-emission travelling);
- Insurance that provides coverage and guarantees for the implementation of sustainable development projects, photovoltaic and thermal solar centrals, modernization of power plants, etc.
- Insurance guarantees for battery longevity;
- Insurance programs for municipalities that co-finance renewable energy.

To better assess the sustainability of non-life products, it will be important to clearly define when the sustainability feature of an insurance product applies and whether this is to the activity or the object insured (and not the insurance policy as such).

Only a few national measures, different from those promoted at EU level (e.g., EIOPA's work on "impact underwriting") and general promotion of sustainable financing, have been mentioned to enhance the offer of ESG-related insurance products. A few Member States reported engaging the industry and other stakeholders in e.g., seminars, workshops, roundtables, or issuing guidance with the aim of increasing awareness and the offer of ESG-related insurance products, as well as to clarify sustainability-related requirements. One Member State has for example published a green recommendation for national insurance companies, which aims to help identify and manage climate-related risk factors. 2 Member States have mandatory insurance to cover damages caused by natural disasters (earthquakes, floods, landslides, etc.).

Only 2 Member States reported identifying clear cases of greenwashing in the insurance sector. Shortcomings in the disclosure of sustainability information and unclear situations regarding the validity of sustainability claims have been mentioned by several on the other hand.

g. Other aspects of national practices in relation to sustainable finance

Member States also reported other sustainable finance – related initiatives, occurring or considered at different levels of public administration and resulting in different documents produced by them:

- Development of national sustainable finance strategies or incorporation of sustainable finance in existing sustainable development strategies;
- Structures and texts aimed at specifying the concept of "Do No Significant Harm" (DNSH) in different contexts (for Multilateral Development Banks, National Promotional Banks, in support of national RRPs);
- Different initiatives for exchange and collection of ESG-data among companies;
- Development of national sustainability labels;
- Adoption of national financial literacy strategies;
- Need to plan a holistic transition, by identifying sectoral targets and investment gaps, accompanied with strong coordination and partnership between private and public sector, if possible coordinated at EU level
- Member State also reported initiatives, set up in direct partnership with financial actors, to mobilise and support investment in international climate finance, including in the area of blended finance.

2. Comparability of SME reporting

March 2024 EG+ Statement called on the Commission *"to further harmonise accounting frameworks in a targeted manner to enhance cross-border comparability of available information on companies, without increasing administrative burden, to allow in particular small and medium-sized businesses (SMEs) and other non-listed firms to better benefit from the new European Single Access Point (ESAP) and thus facilitate investment in those companies", and to that end "to consider making appropriate proposals, including with regard to the development of a voluntary IFRS-light regime for SMEs".*

FSC held a discussion on possible ways to harmonise accounting frameworks to enhance cross-border comparability of available information on companies, on the basis of a Commission discussion paper presenting three possible approaches to reporting for SMEs. For SMEs and non-listed firms (around 13 million companies), the reporting rules are mainly national Generally Accepted Accounting Principles (nGAAP). These are partially harmonised under the Accounting Directive however this allows for significant flexibility. Thus, financial reporting for SMEs and unlisted companies is not easily comparable across Member States.

The first option would be to adopt an amendment to the Accounting Directive, which would further harmonise elements of nGAAPs that represent useful information for cross-border investors. Only a few FSC members were in favour of the option and a higher number against, citing in particular high costs and the administrative burden which would apply to all companies affected. Under the second option, the EU could either endorse the IFRS standard for SMEs or set up its own standard which would take into account the situation of SMEs and unlisted companies. This option received more support from the members, provided that the uptake of the standard would be voluntary, and that international fragmentation be avoided. Some members pointed to the risk of creating duplications due to the voluntary nature and due to the fact that nGAAPs would still need to apply to tax information, while other members highlighted that the voluntary nature would help avoiding undue burden on companies. The option that preliminarily received the most support was the last proposed approach, which would provide SMEs and unlisted companies with the possibility to file voluntarily on the European Single Access Point (ESAP) a set of key performance indicators (KPIs), and possibly other key information of particular interest to cross-border investors. At the same time, members also stressed that it would be important to carefully design the KPIs to ensure comparability of data across countries and define the scope of companies that would be reporting. It was also noted that this option implied the creation of a parallel reporting system vis-à-vis the

accounting framework, raising questions about the applicable principles and legal structure. One member suggested a fourth option to harmonise nGAAPs, however this was not discussed further.

Several members underlined that further preparatory work and details on the modalities of the different options was needed in order to be able to fully assess their merit and asked for Member States to be involved in these efforts. A number of members questioned whether the FSC is the only forum to discuss the options, with the accounting and tax working group being more expert on the topic. The Commission considers that reporting of SMEs is an important part of CMU and hence it is important that the FSC gives it a general steer. The Commission will reflect on the next steps in the coming months.

3. Equity financing and consolidation

March 2024 EG+ Statement:

6. Increase the attractiveness of capital market funding for companies through better integrated market infrastructure in the EU and through further convergence and harmonisation of listing requirements across European exchanges to ensure lower costs and easy access to make equity and bond financing in the EU more attractive, including for SMEs.

We invite the European Commission and Member States to assess and, if appropriate, address obstacles that could hinder mergers and acquisitions or other forms of integration of market infrastructure, including stock exchanges, with the view to strengthening European centres of expertise.

[…]

7. Foster equity financing through well-designed national corporate tax systems to ensure EU companies have access to diversified sources of funding.

Member States are invited to investigate ways to reduce the debt equity bias (for example through their national tax systems) and share best practices and plans to address this bias. We invite the European Commission to support this initiative by providing analysis and advice.

B. Business: Increase investments in the EU, especially in the sustainable and digital sectors, and ensure that businesses, especially SMEs, have access to the appropriate funding to grow within the EU, can be competitive and are not hindered by excessive administrative burden.

8. Improve conditions for institutional, retail, and cross-border investment in equity, in particular in growth/scale up venture capital through regulatory means, targeted tax incentives by Member States or other measures at EU and national level.

[…]

We invite the European Commission, in cooperation with Member States, to assess the impediments, including of a regulatory nature, to cross-border investment, especially in the EU equity market, by institutional investors, including pension funds and, based on this assessment, consider ways to tackle the impediments.

[…]

The FSC agreed to follow up to the EG+ statement inter alia through a survey to Member States that aims to identify existing practices, planned work and relevant policy considerations in the areas of equity financing and consolidation. The survey was sent to Member States in July 2024.

The objective of the survey was to establish a suitable information basis for a discussion among Member States and with the Commission and other stakeholders on good practices, experiences made and suitable ways forward. The survey intends to provide a starting point to identify and select cases that FSC members consider study and discuss in more depth. Length and details of the responses varied substantially across Member States. Some of the information will necessitate a follow up discussion to properly understand the policy measure and to be able to assess whether it has a potential to serve as good practice. It should also be noted that the brevity of time for the evaluation of the replies did not allow for a cross-check of the information provided by Member States.

This text summarises the responses of 25 EU Member States. They cover the following topics:

1. The debt equity bias in taxation,
2. Tax incentives for equity investment by institutional investors,
3. Barriers for institutional investors to invest in equity,
4. Obstacles to the scaling up and consolidation of market infrastructures,
5. Other obstacles to equity investment.

a. Debt-equity bias in taxation

Q1.1: Are there any national measures to mitigate the debt-equity tax bias? If yes, what has worked well, not so well?

19 Member States out of 25 provided details on their national measures. One Member State has specific measures for specific cases but did not provide details while five Member States reported no specific national measures to mitigate the debt-equity tax bias, relying instead on broader tax systems to manage corporate financing.

Types of National Measures

- Limitation on the possibility to deduct interest on loans or debt from the tax base: This is the most commonly used instrument to contain the debt-equity bias. Many Member States have applied the Anti-Tax Avoidance Directive (ATAD), which disallows any interest deduction insofar the net interest balance of a taxpayer exceeds 30% of the fiscal EBITDA or a threshold of EUR 3 million. One Member State strengthened the ATAD restrictions by limiting to 20% of the fiscal EBITDA or a threshold of 1 million.

- Notional interest deduction: Three Member States allow or allowed firms to deduct a notional interest from taxable income to reduce the effective tax rate for companies that are financed through equity. A fourth Member State seems to apply also notional interest rate reductions.
- One Member State has a capitalisation reserve that allows reducing 15% of the profits from the tax base provided he amount is kept in the entity's equity for a period of three years.
- Neutral corporate income tax system: Two Member States reported to have a corporate income tax system that is neutral to the type of funding by taxing profits at the distribution stage.
- Some further Member States reported measures that target incentives for specific firms. These are reported below.

Effectiveness of National Measures

- Two Member States reported that the notional interest deduction has been effective in reducing the debt-equity bias, the third reformed this measure recently, which suggests there were issues with it.
    - Three Member States commented on the effectiveness of the interest rate reduction measure.
    - One of them observed that larger firms benefitted from the limit on interest reduction.
    - a second one argues that the reduction of debt-equity bias was a secondary effect but not the principal objective of its measure.
    - In the Member State with tighter implementation, this measure has become subject to political scrutiny and is expected to be amended.

Overall, the responses from Member States indicate that there is a wide variety of national measures in place to mitigate the debt-equity bias in taxation.

Q1.2: Are there special regimes for the tax treatment of equity for firms with particular high needs for equity investment for example for start-ups or scale-ups, and/or in any specific industry? What are they?

12 Member States mentioned special regimes and 12 Member States reported not having special regimes. 1 Member State did not reply to this question,

Types of Special Regimes

Only one Member State reported sector-specific rules to reduce the debt-equity bias, namely for banks and insurance companies. Others provided tax incentives for special business types or situations.

- Tax incentives for investors: 7 Member States proposed tax reduction mechanisms for investors in the capital of SMEs and start-ups. An interesting case is also that of one of them gives a one-year tax holiday for SMEs.

- Deductions of IPO costs: One Member State offers deductions of IPO costs for stock market debutants. It also provides tax incentives for other business evens such as consolidation, expansion, launch of new products, all under specific conditions.

- Special regime for dividend tax: One Member State has a special regime for the dividend tax for unlisted companies.

- Tax breaks for young and innovative companies: At least three Member States use tax breaks or deferral of tax for young and innovative companies.

- Tax reductions for R&D: Two Member States applied tax reductions for deficit related to R&D and employer contributions paid for employees working on R&D. A third Member State reported a long list that includes not only tax incentives for investors but also special treatment for expenditures in R&D and intellectual property.

Q1.3: Considering the current stalemate in Council on the DEBRA proposal, is there scope for a regime at EU level limited only to firms with a particularly high need of equity and/or active in the industries where the EU may have strategic interest?

Overview of Responses

- About a fourth of the Member States, respectively, either did not reply to this question, considered there is scope for a common action, considered there is no scope or was sceptical about the scope for a common action at the EU level.

Assessment of Responses

Member States's responses to this question yield an overall skeptical assessment for a common action at the EU level in this area, despite the pure count indicating a somewhat mixed perspective. Many Member States express concerns about the complexity and state-aid implications of targeting measures to specific firms/industries. Only one of them raised the issue of potential distortions to competition in the single market.

- Some Member States questioned the effectiveness of the DEBRA proposal and raised issues of capacity constraints and current focus on other tax initiatives. Two of them recapped that the idea of a narrower application of DEBRA has been dismissed before as yielding excess complexity.

- The contributions reflect a tension between the desire for tailored support mechanisms and the need for simplicity of the tax regime on the one hand, and the interest in supporting young innovative firms through national means and the insistence on an international level playing field on the other hand.

b. Tax incentives for institutional investors

Q2.1: Are there tax incentives for long-term equity investment by institutional investors?

Q2.2: Could you very briefly describe the applicable tax treatment?

The Eurogroup has invited Member States to improve conditions for investment in equity through regulatory means, targeted tax incentives, or other measures. A review of tax incentives for long-term equity investment by institutional investors across Member States reveals a diverse landscape.

13 Member States have tax incentives in place, while 11 Member States do not. 1 Member State did not reply to this question.

Types of Tax Incentives

Tax incentives vary across Member States, with some offering favourable tax regimes and others maintaining a neutral tax environment. Some examples include:

- Tax exemptions or reduced rates on income from dividends and capital gains.
- Measures to enhance the attractiveness of, with tax rebates or deductions on annual contributions to pension savings and retirement plans.
- Exemptions from tax for investment funds, with only dividends paid out being taxed.
- Lower tax rates or tax exemptions on income distributed from pension funds under certain conditions.

Examples from Member States

A central design difference seems to be whether institutional investors exempted from tax and only the dividends they pay out are not, mentioned in three Member States, or whether the institutional investor is taxed but the income holders received from them is not taxable like in a fourth Member State. One of the three Member States indicated that a lower tax rate or even tax exemption would apply on income distributed from pension funds under conditions.

- One Member State grants tax exemption on capital gains in listed companies for both retail and institutional investors.
- Another exempts investment funds and pension funds from tax on capital gains and received dividends.
- A third Member State has a reduced tax rate for investment funds and a zero tax rate for pension funds.
- Tax incentives for investments into equity also exist for pension funds under supplementary social security schemes in another Member State.
- One Member State informed about a special regime for private equity entities, which provides a 99% exemption on capital gains on their investments that applies when they do not meet the requirements for a general capital gains exemptions.

Indirect Taxation Effects

Two Member States mentioned indirect taxation effects, including:

- Pension funds' possibility to deduct transfers to reserves, resulting in little taxes actually paid
- Employers' possibility to deduct their contributions to employees' pension plans from their taxable income, supporting the investment of pension managers and indirectly their investment in equity

Effectiveness of Tax Incentives

- Only three Member States reported that tax incentives were effective in increasing equity holdings, while two Member States reported that they were not effective.
- Two Member States provided information on the budgetary impact of these incentives.
- Overall, information on the effectiveness of tax incentives is scarce.

Q2.3: Have they been effective in terms of increasing equity holdings of institutional investors?

Q2.4: Have you estimated their impact on the public budget? Is there evidence that a larger taxable income due to higher equity holdings would offset (at least partially) the tax rebate? Have these incentives lately been subject to reviews or are you considering one and if so, which one?

Three Member States reported that the tax incentives were effective in increasing equity holdings, although one of these responses was indirect. Two Member States reported that the tax incentives were not effective, and two Member States provided information about the budgetary impact of the tax incentives.

Effectiveness of Tax Incentives

- 3 Member States observed positive developments, including an increase in the number of undertakings and their investments.
- 1 Member State undertook an evaluation study, which found that the tax incentives had no notable impact on the targeted investment funds, leading to an amendment of the regime.
- A financial association in 1 Member State stated that the tax incentives were ineffective but did not provide further details.
- 1 Member State reported that the tax incentives may have had a positive effect on equity holdings, but the primary objective of the tax measure was different.
- 1 Member State argued that domestic equity holdings are insignificant, and therefore tax incentives cannot make a significant difference.

Budgetary Impact

- 2 Member States provided estimates of the budgetary costs of the tax incentives.

- Some Member States reported that they had no analysis available or pointed out the complications of making such an analysis.

Assessment of Responses

- Information about the effectiveness of tax incentives in increasing equity holdings by institutional investors is scarce, with few Member States reporting positive outcomes.
- Many Member States noted the challenges in measuring the impact on the public budget.
- The responses suggest that the effectiveness of tax incentives in increasing equity holdings is uncertain, and more analysis is needed to determine their impact.

c. Investment barriers for institutional investors

Q3.1: Are there restrictions in national law or resulting from the established business practices in your Member State on investment in equity by institutional investors? [A follow up question asked for a classification and description of the restrictions]

The third question aims to identify restrictions in national law or resulting from established business practices on investment in equity by institutional investors, including pension funds, insurance corporations, banks, investment funds, and other types of investors.

- 21 Member States reported restrictions on equity investments by institutional investors.

Restrictions on Equity Investments

Most Member States reported restrictions in line with EU prudential regulations, such as Solvency II for insurers, UCITS/AIF for investment funds, and CRR for banks. For insurers and Pension funds Member States also mentioned the prudent person principle which is included in Solvency II and in some transpositions of IORPS. Regarding constraints at the national level:

- Five Member States reported specific investment limits for pension funds, including numerical limits, cumulative limits, and restrictions on indirect investments.
- Two other Member States reported ceilings on foreign currency investments for pension funds.
- Four Member States reported restrictions on eligible asset classes for special pension funds.
- Three Member States reported investment limits for insurance companies in addition to Solvency II requirements. They are however of very different nature:
    - In one of them there is a list of eligible instruments for small insurance companies,
    - another one imposes a cap on unlisted and low-quality financial instruments,
    - the third Member State has investment ceilings for instruments not traded on EU, EEA and OECD markets for retirement savings in insurance products.

- One Member State reported restrictions in eligible assets for special investment funds that are available for retail investors.

Motivation for Restrictions

- Several Member States provided a short motivation for the limitations.
- The motivations may include ensuring diversification and risk management, protecting investors, and maintaining financial stability.

Assessment of Responses

- Further discussion and exchange on the justification and impact of these restrictions may be useful to determine whether they are constraining private business decisions.

Q3.2: If relevant, have you tried or are you planning to address these restrictions, and if so how?

11 Member States replied negatively, indicating no plans to address the restrictions. Two Member States replied positively, indicating plans to address the restrictions.

Assessment of Responses

- Most Member States do not plan to change existing restrictions or find them not relevant, indicating a general satisfaction with the current regulatory framework or a lack of pressing issues that would necessitate changes.
- Where concerns are raised, they are communicated through appropriate channels such as industry associations or ESMA.
- One Member State is planning to extend the types of eligible assets available for small insurers and pension funds to allow them to invest into assets with higher yields.
- Another Member State is continuously evaluating the regime for special pension funds.

Q3.3: Could the EU help address them, and if so how?

Five Member States replied that the EU can help address the restrictions and seven Member States that the EU cannot.

Assessment of Responses

1. Member States generally do not see a role for the EU in addressing national restrictions on equity investments by institutional investors or find the EU's role irrelevant.
2. Some Member States suggest that the EU could introduce uniform definitions and standards, consider removing certain restrictions where they stem from EU-level regulatory provisions or unduly restrict the cross-border provision of services, and establish best practices for tax services to facilitate cross-border investments and harmonize the investment landscape.
3. One Member State has a long reply referring to institutional investors' investment in venture capital funds, the design of support programmes that could provide incentives for equity

investments, rules impacting the listing of company stocks in regulated markets and availability of information to ease the investing/divesting process in non-listed companies and suggesting that the EU could play a role in addressing the restrictions.

d. Consolidation

Q4.1: Are there obstacles to the consolidation and scaling up of market infrastructures, at national and EU level? [A follow up question asked for which actors the obstacles mattered, for a classification and description.]

24 EU Member States responded to this question with a majority acknowledging the existence of obstacles to consolidation and scaling up of financial market infrastructures. Most responses focused on obstacles to consolidation, rather than scaling up.

General Views on Consolidation

- Several Member States called for more in-depth analysis and cautioned against seeing consolidation as a goal in itself. Those Member States raised concerns regarding fostering consolidation, called for more analysis and preferred a market driven approach.
- Some other Member States have shown strong interest in consolidating financial market infrastructures, citing the drawbacks of fragmented infrastructures and national regulations, such as divided liquidity and intra-EU transactions often requiring multiple intermediaries, which increases (cross-border settlement) costs and inefficiencies, thereby impeding the free flow of capital and international investments within the EU and reinforcing a national bias in investment. However, some Member States questioned the desirability of advocating for consolidation in financial market infrastructures, citing:
    - A sufficient degree of consolidation already exists.
    - Excessive consolidation leads to anti-competitive concentration, which can in turn lead to higher prices and reduced pressure to innovate.
    - Trading venues play an important role in domestic capital market ecosystems as a gateway for domestic companies and in accounting for the local specificities of companies and investor preferences. Consolidation may pose challenges for local financial markets, hinder innovation and competition.
    - Retail investors trust more in – and SMEs would rather want to use - local infrastructures.
    - A consolidated post-trade market infrastructure would still need to cope with the national specificities of the markets served, thus limiting the benefits of consolidation of the parties involved.
- A number of Member States also argued that consolidation should be a purely market-driven process.

- One Member State underscored that what in some instances could be considered an obstacle to consolidation could at the same time for example serve the purpose of investor and consumer protection.

- In the ensuing discussion, some Member States suggested interoperability as a possible solution to be explored as an alternative to consolidation.

Types of Financial Market Infrastructures Affected

- Obstacles were most frequently identified for Central Securities Depositories (CSDs) with barely any for Central Counterparties (CCPs).

Sources of Obstacles

- Member States cite a wide range of obstacles for the consolidation of CSDs, including:

    - Economic factors

    - Tax regimes

    - Legal and regulatory barriers, in particular linked to divergences in applicable securities laws, company laws and insolvency laws. One Member State specified that differences in compliance requirements, administrative processes, and related costs at national level contribute to fragmentation.

    - Supervisory complexities

    - Technological challenges

    - Behavioural and operational factors such as accommodating national preferences and market practices.

- Some Member States have noted that consolidation especially in post-trade market infrastructure is hindered by national specificities stemming from securities and company law, fiscal laws and specificities of certain securities. One Member States specified that divergence in national securities laws regimes reduces the ability of CSDs to attract non-domestic issuers, therefore limiting the consolidation incentives. Another Member State referred to its book entry system as potential obstacle to consolidation, while finally a MS stated that their CSD is considered a strategic company.

- Some Member States further argued that the diversity of supervisory practices and a need for multiple regulatory approvals can impede the consolidation of trading venues and post-trade infrastructures.

- One Member State specifically brought up the lack of a recognition of groups for market infrastructures in MIFID. Without this recognition, exchanges/market infrastructure groups are largely unable to mutualize internal functions across the group’s entities and jurisdictions.

Q4.2: Have you identified good or bad practices or experiences with market consolidation and scaling up?

19 EU Member States responded to this question, with most details related to market consolidation. The key findings are:

- Half of the respondents identified good practices, while only one reported a bad practice.
- Where Member States identified good practices, these almost exclusively related to M&A activities or formation of cross-border company groups involving local financial market infrastructures (e.g., Nasdaq, Euronext, Vienna Stock Exchange, BME/SIX). That is, the M&A activity and company groups were identified as best practice.
- In two cases, good practices involved removing obstacles to consolidation and scaling up, such as:
    - A joint venture of European stock exchanges in a tender for a European consolidated tape.
    - A tax measure facilitating consolidations in general.
- The bad practice related to difficult access to CCPs for smaller entities in a small Member State.

Q4.3: Are there comparable obstacles to the consolidation and scaling up of investment funds and if so, which ones?

While certain Member States advocate for scaling up instead of consolidation of existing investment funds in general, five Member States reported obstacles to the consolidation and scaling up of investment funds and a further one recognises that consolidation could be beneficial. On the other hand, several Member States highlighted that rather than a consolidation of market infrastructures, the scaling up of successful companies maturing beyond the venture capital phase is a more crucial issue for their markets. Member States that did not identify obstacles argued that past M&A activity shows limited impact, and further market concentration may limit competition and be undesirable.

Types of obstacles

- The reported obstacles included:
    - Local requirements perceived as limiting or impeding the distribution of investment funds by asset managers from other Member States, including discriminatory treatments of non-domestic investments or investment vehicles, local marketing requirements (on top of EU PRIIPS KID requirements) and national language regimes, differences in national investor protection rules, tax regimes, including discriminatory tax incentives or eligibility for specific tax benefits, and the legal status of a fund.
    - Goldplating of the EU rulebook.

- Divergences in corporate law, rules on collateral, insolvency and creditor hierarchy, as well as rules of procedure in front of courts, give rise to costs, making the development of pan-European products inherently more expensive, thus offsetting economies of scale.
- Investor preferences, marked by available revenue, cultural considerations, historical experiences and the (sometimes limited) level of financial literacy, and the absence of a single supervision mechanism for asset managers and their funds.
- Inability for managers to make full use of the EU passport due to these obstacles.
- Absence of a depository passport.

Q4.4: *If relevant, have you tried or are you planning to address these barriers and, if so, how?*

14 EU Member States responded to this question and among them five Member States stated that they have tried or are planning to address barriers to consolidation or scaling up of financial market infrastructures of funds.

- The reported measures include:
  - Strengthening capital market orientation in state pension provision.
  - Assessing the current savings incentives landscape.
  - Simplifying the asset management sector to reduce administrative burdens.
  - Proposals for changes in EU legislation
  - Communicating legal obstacles to ESMA.

One Member State referred to the extraterritorial effects of measures adopted by other jurisdictions, and the inability to address them nationally.

Q4.5*: Could the EU help address them and, if so, how?*

16 EU Member States responded to this question. 8 Member States considered that EU-level action could help address barriers to consolidation or scaling up of financial market infrastructures of funds, in areas governed by EU law, and two Member States replied negatively.

Possible suggestions for EU action

A holistic analysis of the existing EU regulatory framework for capital markets.

- Reducing regulatory burdens and applying the proportionality principle more consistently.
- Address sources of regulatory fragmentation, including gold-plating and discriminatory treatments, in the area of development and cross-border distribution of financial products.

- o Analyse the possible benefits of reviewing the supervisory framework for certain entities. Although several Member States saw regulatory convergence of market infrastructures as the appropriate way forward, some Member States called for more central supervision.
- o Mobilizing retail savings.
- o Addressing intra-group outsourcing.
- o Proposing amendments to the CSDR and AIFMD.

e. Other national practices and aspects relevant to equity financing

Q5: Please mention any other aspects or national practices you consider relevant in relation to equity financing

12 Member States mentioned elements relevant to equity financing and 13 Member States did not reply to this question.

Targeted Support for SMEs and Development of Local Capital Markets

- Some Member States that developed a capital market strategy reported about it in positive terms.
- Some Member States reported from the development of national capital market strategies, while others referred to measures on the demand side, which will be covered in the second part of the survey.
- The importance of fostering a conducive environment for equity investment is recognised in many contributions, with some Member States calling for EU-level support to achieve these objectives.
- The discussions reflect a broader consideration of how to optimise the regulatory framework to support economic growth and innovation while maintaining robust safeguards.

Measures to Support SMEs' Access to Risk Capital

- Some Member States reported a positive role for sandboxes, IPO task forces, and SME IPO funds in supporting SMEs' access to risk capital.
- One Member State recalled the important role its development agencies were having in allowing the public sector to invest directly in equity.
- Another Member State wrote that it was conducting a pilot regime to exempt capital gains from taxation.
- A third Member State mentioned a mandate set by recent legislation to come forward with a comprehensive set of measures to incentivise firms to seek equity funding and reduce related costs.

Broader Measures on the Demand Side

- Four Member States referred to broader measures on the demand side, including investment accounts to foster retail investment, provisions to encourage employee share options, and a reform of the tax regime applicable to securities transactions.

- One Member State reported a reform of the tax regime applicable to securities transactions that aims to incentivise tax subjects to hold securities for longer than 1 year.

Market Consolidation and Market Infrastructures

- Two Member States raised additional specific points on market consolidation related to market infrastructures.

    - One Member State advocated to consider under which circumstances CCPs and CSDs could be granted access to central bank liquidity irrespective of whether or not they hold a banking license.

    - One Member State argued that when discussing consolidation, it is also relevant to address the notion of interoperability as another way to achieve the objectives of consolidating market infrastructure.

    - The same Member State argued that exchanges performed better in terms of IPO activity when they were part of a group rather than acting as a stand-alone exchange. It noted that it is possible to attract listings in its current landscape, despite having several trading venues in its market.

4. Securitisation

March 2024 EG+ Statement called on the Commission *"to comprehensively assess all the supply and demand factors holding back the development of the securitisation market in the EU. This assessment should cover, inter alia, the adequacy of our toolbox, including the prudential treatment of securitisation for banks and insurance companies and the reporting and due diligence requirements. The European Commission should consider coming forward with corresponding proposals, taking into account international standards."*

The FSC has sought to assess how EU securitisation markets have performed relative to its international peers and to ascertain whether there are obstacles in the regulatory framework or elsewhere that may hinder the development of EU securitisation markets. As per the FSC's request, the Commission, in cooperation with the ESAs and the ECB, presented a non-paper comparing how securitisation is regulated in various key third countries (US, UK, Japan, Canada and Australia) vis-à-vis the EU. The non-paper covered the set of standards agreed at the relevant international fora (FSB, Basel and IOSCO) dealing with STC securitisations, bank prudential treatment (liquidity and capital), re-securitisations, risk retention, transparency and disclosure and due diligence. The non-paper also illustrated whether there are government-sponsored agencies (GSAs) or other forms of government support in those jurisdictions, the role the GSAs play in promoting or supporting securitisation therein and the importance of the GSA-sponsored securitisation for the relevant domestic market. Moreover, the ECB presented their analysis and conclusions on main trends in EU and international securitisation markets (with its focus on the US). Both the Commission's non-paper and the ECB's analysis showed comparative data on the size of securitisation markets in the EU and key third countries, considering all relevant dimensions (e.g. private and GSA-sponsored securitisation, synthetic and cash securitisations, covered bonds, etc.).

Following this thorough assessment, the main take-aways can be summarised as follows:

- EU securitisation markets seem to be much smaller than in other comparable jurisdictions like the US, and it is, therefore, appropriate to examine whether there are obstacles in the EU regulatory framework that could be removed or alleviated to facilitate the market's growth. Member States expressed their willingness to considering appropriate changes to the EU securitisation framework, provided that these still reflect the underlying risk, and should not be to the detriment of financial stability.

- Like-for-like comparisons have limited value given the different structures of markets and also other factors. The role of GSAs in certain third countries, namely the US, was referred to as possibly the main structural factor explaining the difference in market size. Member States showed willingness to exploring the convenience of public platforms or other initiatives in the EU that would encourage standardisation and sound standards, and that would facilitate market access to smaller players. However, a number of Member States expressed skepticism towards an EU-

sponsored platform underpinned by public guarantees. Lastly, it was noted by several members that GSAs were established in other jurisdictions to pursue housing policy objectives. Any discussion on public guarantees would trigger fiscal and state aid questions that exceed the scope of the current exercise.

- Furthermore, comparisons with third countries, as well as any eventual conclusions from this exercise, should acknowledge a distinctive structural feature of EU securitisation markets: banks in the EU actively use synthetic securitisation for capital relief purposes. In fact, the EU has been successful at restarting synthetic securitisation, with significant growth in recent years partly aided by regulatory changes (in particular, the eligibility of synthetic securitisation for STS purposes), and it is now the only jurisdiction featuring a sizeable synthetic securitisation market with active participation of non-bank investors. At the same time, banks in the EU have mostly favoured issuing covered bonds as main source of liquidity and have done increasingly so in recent years to the detriment of residential mortgage-backed securities (RMBS). Hence, low RMBS issuance levels in the EU do not translate into a liquidity shortage for banks. It was also noted that, however, a higher share of covered bonds means higher asset encumbrance.

- Lastly, Member States agreed that any reform of the EU securitisation framework should be guided by a clear purpose. For instance, various Member States referred to linking the purpose of the securitisation reform with the wider CMU project, and others argued that it should be used primarily to facilitate SME funding, and the transition to a green and digital economy. In that context, the ECB recalled the importance of effective transfer of risks from balance sheets of banks in order to unlock additional funding for the economy. In addition to the banking prudential angle, Member States agreed that the reform should consider a broader set of supply and demand factors (namely how regulation affects insurers' and asset managers' participation in the market) and whether the requirements on transparency and due diligence are proportionate and do not disadvantage securitisation compared to other products. Some Member States, the Commission and the ECB added that we should not focus exclusively on a growth or volume target for the securitisation market but should rather consider whether the regulatory framework is calibrated in the right way, and let the market do its work.

5. Investment, savings, pensions and financial literacy

March 2024 EG+ Statement:

10. Create an attractive, easy-to-use and consumer-centric investment environment, including easy-to-use and secure digital interfaces developed by the industry, and provide incentives to citizens to encourage them to make better use of the opportunities of capital markets.

Member States are invited to assess ways to make their respective personal income tax systems more supportive of investments in capital markets. Notably, Member States should review the tax treatment of long-term retail investment products and of capital gains and losses.

[…]

11. Support sufficient complementary income streams for an ageing population through wider use of longer-term savings and investment products, including through occupational and personal pension schemes.

[…]

Member States are invited to assess the availability of products for their citizens on the occupational pensions market and share best practices, including on how to better enrol citizens in occupational pensions. We invite the European Commission to inform Member States' efforts by identifying and proposing best practices.

Member States are also invited to develop pension tracking systems to provide citizens with an overview of their future retirement income, where needed, based on input from the European Commission. The European Commission is invited to develop a pension dashboard, in collaboration with the European Insurance and Occupational Pensions Authority and Member States, to follow the evolution of pension coverage across Member States and to report back to Member States on developments.

12. Facilitate the strengthening of an investor/shareholder culture among EU citizens to increase retail participation.

Member States are invited to create initiatives to improve financial literacy among citizens as well as SMEs, combined with targeted initiatives to create more interest in long-term wealth-creation through investing. The European Commission should promote a regular exchange of best practices among Member States integrating the joint EU/OECD financial competence frameworks in specific financial education measures aimed at building a better understanding of market-based investment opportunities.

[…]

13. Develop attractive cost-effective and simple cross-border investment/savings products for retail investors.

We invite interested Member States and the European Commission to examine the potential of developing a framework for a common cross-border market-based investment/savings product for citizens and assess its impact. Such product could also be aimed at young citizens, offering them an early hands-on capital market experience through mechanisms such as a programmed monthly contribution and a diversified allocation by default.

The FSC agreed to follow up to the EG+ statement inter alia through a survey to Member States that aims to identify existing practices, planned work and relevant policy considerations in the areas of equity financing and consolidation. The survey was sent to Member States in July 2024.

The objective of the survey was to establish a suitable information basis for a discussion among Member States and with the Commission and other stakeholders on good practices, experiences made and suitable ways forward. The survey intends to provide a starting point to identify and select cases that FSC members consider important to study and discuss in more depth. Length and details of the responses varied substantially across Member States. Some of the information will necessitate a follow up discussion to properly understand the policy measure and to be able to assess whether it has a potential to serve as good practice. It should also be noted that the brevity of time for the evaluation of the replies did not allow for a cross-check of the information provided by Member States.

This text summarises the responses of the 27 EU Member States. They cover the following topics:

1. Retail investment,
2. Retail investment products,
3. Occupational pensions,
4. Financial literacy,
5. Distribution channels and other factors.

a. Retail investment

Q1.1: Are there investment and savings accounts that fiscally incentivise retail investors to participate in capital markets or save long-term? If yes, please briefly describe the existing investment and savings account schemes in your Member State, including, where applicable:

- minimum holding periods, (ii) minimum/maximum investment amounts, (iii) withdrawal possibilities, (iv) eligible investments (asset classes), (v) any geographical or other restrictions, if applicable, (vi) any restrictions applicable to distribution (i.e. eligible distributors, fee caps, possibility to switch providers, etc.);
- applicable tax treatment (e.g., related to accumulation, decumulation, inheritance) (could you very briefly describe it) and whether/how it changes in case the investor moves to another EU or non-EU country.

Many EU Member States have investment and savings accounts that offer fiscal incentives to retail investors, although the types of accounts and their features vary widely. Some Member States that do not have investment and savings accounts provided details instead on the fiscal benefits they provide to pensions funds or similar. Although these schemes also help citizens save up for their retirement, they are not the target of this survey, so these answers were not taken into account in this section. On the other hand, some

Member States consider that a general tax treatment of retail investments which is easy to understand and does not entail significant administrative burden could be a substitute to the creation of dedicated investment accounts in encouraging retail participation.

Minimum holding periods

- Minimum holding periods for these accounts range from 5 to 15 years, with some accounts having no minimum holding period at all.
- Others have a minimum holding period that is established according to the age of the account holder, these schemes usually have a minimum holding period until the user is at least 60 years old.

Tax treatment

The fiscal benefits detailed in the survey answers are quite varied.

- The most flexible models provide exemption from tax on realized capital gains either completely or partially.
- Some simply allow the deferral of the capital gains tax until the capital gains are withdrawn from the investment account.
- In one model, taxation is based on imputed income.

Restrictions and eligible investments

- In terms of restrictions regarding maximum investment amounts there are two types of restrictions: a restriction on the total contribution and a restriction on the yearly contribution. Some schemes apply one of these restrictions while others implement both.
- The yearly contribution limits vary from €3,200 to €40,000. In terms of total contributions limits vary from €19,000 to €200,000. There are also some schemes that have no limits at all.
- The eligible investments for most schemes are quite broad, allowing for (public) equity investments, investment funds and bonds. One Member State noted that it must be possible to ascertain market values for financial assets held in the savings account scheme.
    - Some schemes had even broader horizon of eligible assets that included even crypto and crowdfunding instruments or derivatives (for hedging purposes)
    - while others had a much narrower scope only allowing bonds, government bonds or equity and equity investment funds.

Geographical and Distribution Restrictions

- In terms of geographical restrictions, some schemes were limited to investments in companies within or with presence in their Member State, others limited it to investments in the EU or EU/EEA plus financial instruments listed in foreign capital markets equivalent to regulated markets.
- Regarding distribution, most schemes could be distributed by financial service providers similar to normal investment accounts. However, there is one Member State that imposed limits on the fees that could be imposed on holders of these accounts.

Q1.2: Could you provide information about the uptake and evolution (if possible since the introduction of the scheme)?

Most of the schemes are said to be quite popular and successful by Member States although few provided take-up figures.

- Among those who have provided figures one particular Member State stands out with almost 40% of their population having an investment account.
- One Member State has shown great take-up figures since its recent introduction with the number of new accounts being opened annually increasing year on year.
- Another Member State that has provided figures demonstrated its success by comparing it with the low take-up figures of the predecessor scheme.

It is important to note however that some Member States have very low retail capital market participation, thus some figures which may appear low are actually quite high when put in this context.

Q1.3: Has the investment and savings account scheme been ever reviewed or are you considering a review, and, if so, why and what it implied/would imply (could you provide a very brief description)? In case of a past review, has it allowed to render the scheme more successful with citizens?

Changes and developments

The investment and savings account schemes in EU Member States have undergone changes and developments in recent years.

- Many Member States have introduced new schemes or made adjustments to existing ones. For example, some Member States have introduced completely new schemes while others have reviewed or plan to review their existing regimes.
- Some Member States have increased the maximum deposit amount, while others have introduced new types of accounts, such as investment accounts and pension savings funds.
- others have made changes to the tax treatment of these accounts, including lowering the final taxation rate on accumulated pension rights.

Impact of changes and external factors

- Overall, the impact of these changes has been positive, with some Member States seeing an increase in the number of accounts opened or assets under management.
- However, external factors, such as changes in interest rates and the COVID-19 pandemic, have also affected investment and savings accounts.

Q1.4: Have you estimated the impact of your investment and savings account schemes on the public budget? Is there evidence that a larger taxable income due to higher securities holdings has (at least partially) offset the tax rebate?

- Most Member States have not been able to provide an impact of their investment account schemes on their national budget.
- Some Member States do have the figures of the impact of implementing their investment and savings account scheme or a similar pensions scheme but were unable to provide it.
- Three Member States were able to provide figures and stated that there was no evidence that a larger taxable income due to higher securities holdings would offset the tax rebate (even partially). These Member States stated that they estimated negative impacts on their budget from their initiatives on investment and savings accounts.

Q1.5: How would you assess the following 3 options?

(i)	**an EU legislative proposal** requiring the introduction of an investment and savings account in all Member States with a minimum set of conditions for a pan-European label and the associated tax treatment, possibly with portability features;
(ii)	**a Commission recommendation** addressed to Member States inviting them to set up a national scheme (setting out conditions and tax treatment that Member States may use in setting up a scheme);
(iii)	**best practices** for Member States to consult where relevant.

Member States' Preferences

- A majority of Member States were in favour of the third option which would entail an exchange of best practices.
- Several Member States were also open to the second option.
- Just three Member States were open to option 1.

This means that a majority of Member States are in favour of an exchange of best practices and are against a legal proposal seeking to introduce an investment and savings account in all Member States with a minimum set of conditions for a pan-European label and the associated tax treatment.

Concerns and challenges

- Overall Member States believed it would be too complex for the Commission to harmonise the area of capital gains tax and that the past negative experience with PEPP gave them little hope for the legislative proposal.
- Others cited the large differences among Member States tax regimes. Some Member States did agree though that this option would have large benefits for retail participation in capital markets but put emphasis on the difficulty of reaching an agreement on the proposal.

Alternative approaches

- On the possibility of issuing an EU recommendation Member States were more open.
- Finally, many Member States supported the idea of sharing best practices and increasing transparency, with some suggesting the establishment of an EU website with links to EU financial institutions providing investments and savings products.
- Another Member State stated that a focus on best practices would also aid the objectives of minimizing bureaucracy and moving quickly as well as provide a positive incentive for Member States to collaborate and share experiences.
- Some Member States suggested that the best way to proceed in any case would be to first carry out the study of best practices and then, based on the information received from that exercise, pursue either option 1 or option 2.

b. Retail investment products

Q2.1: How would you assess an EU legislative proposal setting up a pan-EU label for a new retail investment product and the associated tax treatment? Alternatively, would you consider that setting up a Pan-European investment and savings account would be a more preferable course of action?

Overall, the ideas of setting up a pan-EU label for a new retail investment product or a pan-European investment and savings account were each supported by a minority of Member States, with support for each of the alternatives about equally low.

Reasons for skepticism

Where skepticism and doubts were expressed, these concerned both the feasibility of introducing either of the two ideas as well as their effectiveness in achieving the aim of increasing retail investor participation.

Important caveats to these overall observations are that some Member States indicated that more information was needed, and that the distinction between the proposed options has not always appeared to be clear. In particular as regards the label, questions were raised as regards the added value compared to already existing products and labels such as UCITS, ELTIF, PEPP, IORP, EuSEF and EuVECA and some Member States cautioned against introducing excessive fragmentation and complexity. The initial focus should be on fixing potential shortcomings with existing product labels rather than introducing new ones.

Taxation was a major source of skepticism among Member States.

- As regards the role of incentives, Member States recognised that these could play a role in incentivising retail investments, pointing to a number of national examples that they deem successful. On the other hand, one Member State expressed the concern that tax incentives for specific products lead to distortions, whereas these can be reduced if incentives are applied at account level.
- As regards tax harmonisation, many Member States indicated that taxation should remain a national prerogative and that national specificities of tax systems must be respected.

As regards the effectiveness of a potential initiative, Member States point to the existence of taxation models and investment opportunities at national level, expressing concern that an additional product or account could lead to confusion and interfere with the success of existing initiatives without increasing retail participation. Overcoming obstacles such as the absence of direct and straightforward access for retail investors to many longer-term investment products, *inter alia* due to heavy disclosure requirements, was considered important as well. One avenue to be explored in this regard could be the definition of minimum characteristics, for example in terms of diversification or investable assets, that would make longer-term investment products available for execution-only distribution without requiring additional burdensome disclosures or suitability assessments.

Alternative suggestions

A number of Member States make suggestions as alternatives to a pan-EU product label or account, for example

- an exchange of best practices if an agreement on a harmonised tax treatment is not feasible;
- harmonising and simplifying rules regarding marketing and distribution of certain retail investment products;
- exploring whether ESMA’s competence to develop guidelines for fund names could be used to develop guidelines which function as a label, although several Member States warned that guidelines were not a suitable tool to this effect; or
- a decentralised and inter-governmental approach whereby a new savings product would be based on a label introduced by “willing” Member States.

Q2.2: Would you consider a revision and streamlining of the PEPP be another way to deliver on the objective?

There is a general recognition amongst the 21 Member States responding to this question that the current PEPP framework does not achieve its aims.

- A majority of Member States support a revision of the PEPP framework in order to make it more attractive to market participants.
- Those who do not support a revision argue that it is too early for a revision given the limited track record of the framework or that the political difficulties that a revision might entail should be avoided.

Few Member States directly addressed the question whether a revision and streamlining of the PEPP could be considered another way to deliver on the objective, with one Member States pointing out that it was unclear which objective was referred to in the question.

- Some Member States argue that the focus should be on PEPP rather than a possible new product or account.
- Others argue that the PEPP might not be the best way to channel a significant amount of retail savings towards long-term investments and that a completely new framework for this purpose would be preferable.

c. Pensions

Q3.1: Do you have / did you have in the past or are you planning to introduce an occupational pension scheme in your Member State? For those Member States that have a scheme, can you briefly describe it. This section also covers replies to Q3.4: was it a Defined Benefit (DB) or Defined Contribution (DC) scheme?

26 Member States provided replies to the questions on occupational pension funds, one fewer than responded to the other questions. One Member State also included responses from domestic financial intermediaries. Regarding their composition,

- 18 Member States have active occupational pension schemes
- 3 Member States have established the legislation, but the market is still developing respectively there are not yet any pension schemes active
- Two Member State discontinued their voluntary occupational pension schemes
- Three Member States have no occupational pension scheme, but voluntary personal schemes, which they described as broadly comparable to occupational schemes because employers can contribute, even if they do not organise them.

In Member States with active occupational pension schemes, the most important determinant of their use appears to be their position towards public and personal pensions, which is visible in the participation rates varying between 90% and marginal. One Member State explicitly quotes the generosity of the public pension system as a factor that reduced interest in occupational pensions. In Member States with the highest coverage rate of occupational pensions, the main goal of public pensions seems to be on providing a safety net.

Structures differ in several aspects

- Schemes are either defined contributions (DC) or mixed. About two thirds of respondents indicated DC and one third mixed schemes. No Member State reported that its system is solely organized as defined benefits (DB). In one Member State, the employer has to guarantee the nominal value of the contributions in some DC pension funds.
- One Member State reiterated that its occupational pension schemes are organised as pay-as-you-go.
- It is rather common not to have a uniform regime, but 2 to 5 different regimes governed by different rules. None of the Member States explained whether the reasons for the differentiation were of historical nature or to tailor schemes to differences in needs between employers and employees.
- With respect to participation and contributions
    - Some Member States reported elements that make participation, see also replies to question 3.1.2.
    - In several Member States and among those three Member States with the highest participation in occupational pensions, terms and conditions are part of collective agreements between social partners. In some of them, participation becomes mandatory for employees if their employer concludes a pension scheme.
    - Three Member States reported predefined rules about the share or amounts that employers and employees contribute and one that employees can make additional payments, though with limits.
    - A role for individual contracts between employers and employees was flagged by a few other Member States.

Design elements

- Some Member States combine their pension scheme with voluntary or individually contracted elements, others with insurance services (work risks, disability). Two Member States reported that their systems include solidarity elements, i.e. distributive features.
- Specific provisions
    - Few Member States have them for self-employed. One Member State stated that the coverage of self-employed was a reform objective.
    - A few other Member States indicated they have special regimes for persons that cannot get coverage through occupational pensions in 1st, or 3rd pillar.
    - One Member State informed that its system allows for the portability of pension rights for employees that change jobs.

    - While no Member State referred to the coverage of career breaks and atypical work contracts, a recent study done for the Commission services collected good practices in the area of career breaks.

- Payouts and withdrawal rules
    - The standard is that rents are paid out at old age, or other insurance events materialise (disability, invalidity). If there is a possibility to withdraw them earlier, it usually comes at the expense of the loss of at least tax privileges.
    - Two Member States informed that pay outs are in the form of regular instalments, a third Member State that members must buy a life annuity after retirement, a fourth that the vast majority were in the form of lump sum payments while a respondent in the fifth considered the lack of annuities a disadvantage. One Member State requires that 70% of the benefits must be withdrawn through programmed withdrawals, such as annuities. Up to 30% can with withdrawn as a tax-free lump sum.

Q3.1.1: What is/was the applicable tax treatment of contributions and pay-outs?

All EU Member States grant specific tax treatment to occupational pensions.

- The reply from one Member State suggests that all three phases, contributions, investment income and pay-out of occupational pensions are tax-exempt. The reply from a second Member State suggests likewise for personal pension schemes and a third Member State reported that there is no tax treatment of pensions, which could also be interpreted as exemption of pensions at all phases.
- The clear majority exempts contributions from taxable income and taxes the pay out after retirement and a minority does the reverse. While the former variant of deferred taxation encourages pension savings and may lead to higher accumulated savings, the exact impact depends on a host of factors including tax rates and the specific tax privileges. For example, at least three Member States that tax contributions do so at more favourable and several indicated limits to the taxation.

Taxation of contributions

- Employer contributions are tax deductible company expenses in many Member States including their contributions to personal pension schemes, with several Member States specifying limits.
- In at least three Member States, these are also exempt from employers' social security contributions. Not all Member States gave indications and among those that reported, none said that employers' contributions were taxed. One Member State that relies on third pillar pensions described its tax as neutral for employers, with the consequence that employers have no incentive to contribute and that tax benefits could be considered to increase participation.
- Several Member States indicated unusual, partly innovative ways of tax treatments.
    - One Member State pays a one-time welcome payment and annual surcharge, leading the public sector to contribute 8% of the annual contributions.
    - A second Member State provides an annual subsidy to both occupational and individual voluntary pension fund members of 15% of a member's contribution with a defined ceiling.
    - Another Member States will introduce a new system with add-ons to the employees' contribution instead of providing tax relief.
    - One Member State knows a cap on the tax incentive that the employer is entitled to use first and if not fully used, the employee can use the remaining amount.
    - A further Member State provides tax exemptions for all three phases (contributions, investment income, pay-outs) of additional voluntary contributions up to a limit.

Taxation of pay-outs and investment income

- Investment income
    - is not taxed in a few Member States, with some indications limited to specific regimes.

  - Several Member States reported that either withholding tax is paid or that the pension fund pays a tax on the return.
  - One Member State grants a more favourable tax treatment of returns on government bonds.
- Among those Member States that do not tax pay-outs,
  - some specify that this holds only when the retirement age is reached.
  - In one of them, an early withdrawal leads to taxation, but with event-specific exceptions.
  - In another Member State, individuals can withdraw up to 30% of the accumulated retirement fund tax-free as a lump sum.

Q3.1.2: Does/did it contain an element of autoenrollment? How does/did it function? Could you very briefly describe it?

Although elements of autoenrollment in the occupational pension schemes are not present in every Member States (nine Member States do not have any), it is a significant part in many Member States.

- Some Member States explain that employers are not compelled to conclude a contract of pension, however if they do, their employees are automatically enrolled.
- While in some Member States there might not be possibilities to opt out, other Member States have put in place, and one will put in place, an occupational pension scheme with a right to opt out. The latter one mentioned that although enrolment in an occupational pension scheme is not compulsory, an employer may require it as part of a contract of employment.

Design elements

- In three Member States with auto-enrolment schemes, enrolment is repeated after some years for employees that previously opted out, with the periodicity being every two, three and four years, respectively. It is also possible to enroll again on a voluntary basis at any time and to join voluntarily upon request for uncovered employees, with criteria again different across the three Member States.
- Other Member States have mandatory elements with certain choices left to the members. Among them, there are cases where the employee has a selection power regarding the Pension management company for pensions funds or the occupational pension providers. If not used, then the allocation is made randomly or by default.
- Some Member States make schemes mandatory for some professions or sectors only. This is the case
  - for employees working in certain hazardous occupations, employees exercising in a workplace that is registered as a "difficult", or
  - employees joining an employer that is part of the civil service (with no options to opt out).
  - One Member States also introduced a mandatory enrolment in private-sector industries and as well for most public-sector employees but with very small contributions.

Q3.2: For those Member States that have a scheme, what are its main strengths and challenges? Have you tried to overcome those challenges and, if so, how? This section also covers **Q 3.4: For those Member States that have or have had such a such a scheme:** was it a Defined Benefit (DB) or Defined Contribution (DC) scheme? If DC, were performance and costs offering good value/adequate?

Three Member States stated being positive overall about the direction of occupational pension developments. A fourth Member State described the flexibility in terms of the amount of contribution levels and voluntary participation as positive factors that shape the effectiveness and appeal to both employees and employers. It still finds the uptake to be relatively low. A fifth one also gave a positive verdict, but emphasised this was due to the impact of tax incentives and that maintaining coverage and attracting new entrants were challenging.

Efforts to improve the schemes

Two Member States undertook simplification efforts, and five Member States explicitly stated they wished to increase the coverage of their occupational pension system, plus the one that signaled early plans to introduce occupational pension schemes.

Lack of visibility among employers, low financial education, low confidence and lack of awareness of the need for additional pension savings were quoted as reasons why coverage has hitherto been low. One Member State refers to obstacles for the providers that relate to the administrative burden of setting up and managing a scheme, which are material for the smaller businesses that dominate its economic structure.

Investment and costs

A small number of Member States commented on the investment phase.

- One Member State attributed a positive role to occupational pension savings in developing the domestic capital market. It still considered the share of equity investment to be on the low side and another Member State shared a comparable assessment in that investment strategies were quite conservative. A third Member State described the high returns on old contracts as constituting an investment challenge. Two further Member States stressed the importance of good supervision.
- Regarding fees and costs,
    - three Member States described their regime as cost effective and reported numbers,
    - though one of them describing the low value for money as a challenge.
    - One Member State reported that no monitoring was in place, a second one that no comprehensive analysis has been undertaken, whereas a third Member State considered this a focus of its supervisor.
    - Two other Member States without occupational pension schemes observed declining fees from their private schemes, which when judged by the pure numbers are still higher than in the two Member States that reported numbers of fees of their occupational schemes.
    - Lower costs of occupational than of personal pension products were also reported in a further Member State.
    - One Member State noted the positive effects for beneficiaries when fees are negotiated collectively, and that it has contributed to lower average costs on the fund market in that Member State.

Q3.3 For those Member States that had such a scheme in the past, could you please very briefly describe why you decided to abandon the scheme in your Member State?

Two Member State discontinued their voluntary occupational pension schemes.

- One of them reported that the decision was of a political nature, motivated by low interest in the voluntary scheme that offered neither early withdrawal nor termination opportunities.
- The other one explained it has become marginal over time since participation in the earnings-oriented pillar I scheme is mandatory. The need for supplementary pension schemes has therefore decreased. To the Commission services' understanding, the mandatory pensions are a pay-as-you go system.

The three Member States that have no occupational, but a personal pension scheme indicated flexibility as an advantage. Experiences regarding participation and participants' behaviour differed.

- One of them informed that participation is gradually increasing,
- a second that the option is hardly used,

- the third reported early plans to introduce occupational schemes, which are on hold for the moment because of budgetary reasons.
- One of them noted that competition led to lower costs.
- One criticized the passivity of members
- One observed that participants tend to overreact in times of financial turmoil.

Q3.5: In your view, what would be the key elements of a successful occupational scheme with autoenrollment? What elements should be avoided?

Six Member States did not answer this question, and two other Member States consider the automatic entry as unsignificant. One Member State highlighted the need to consider the specificities of each jurisdiction.

Frequently stated elements

Among the Member States which provided propositions, some characteristics are stated frequently as elements crucial for a successful occupational scheme with auto-enrolment.

- There is a strong consensus on the need for transparency, simplicity, clarity and comprehensiveness of the product and process for employers and employees.
- Another point highlighted is communication and the need to raise awareness about it. Moreover, the guarantee of equal treatment for the employees, and of the safety of the scheme were also mentioned. Similarly, one Member State flagged the need to build trust in the system and mentioned state guarantees in this regard (such as the possibility to apply the resolution mechanism to financial companies).

Other supportive elements

Some Member States agree on the need to avoid overly restrictive solutions and to keep flexibility.

- One Member State considers leaving the possibility for employees to change the plan would be good practice, as for letting the employer choose the pensions provider or leaving the choice to the employee.
- While one Member State stands for compulsory participation (with no opt-out) as it would impede procrastination and inertia, and therefore increase participation among the younger generation, another one stands for mandatory enrollment with opt-out possibility.
- Scale
    - Two Member States mentioned the benefit of economies of scale to yield more cost-effectiveness by giving preference to collective systems rather than individual contracts, avoiding in the meantime individualized advice since it would increase costs.
    - One Member State exposed its ‘pot follows member’ approach consisting in sufficient contributions to ensure pension adequacy, low charges to maximize pension saver returns and appropriate levels of investment choice designed to meet pension saver needs.
- Taxes and administrative burden
    - three Member States listed favourable tax treatments for the employers
    - other Member States listed either low commissions for distributors, state incentives to offset the financial burden of employers, or subsidies or tax incentives to “save more tomorrow”.
    - One Member State indicated the transferability between pensions schemes.
    - One Member State stated that for employers’ contributions, the individual pension schemes could be well suited and there should be no obligation to use institutions for occupational retirement provision.
- Blueprints and complementary measures
    - One Member State mentioned several frameworks to take recommendations from, like the OECD recommendations for the Good Design of Defined Contribution Pension (especially

point 2 and 6) and “Best practices and performance of auto-enrolment mechanisms for pension savings” of November 2021.
    - One Member State mentioned the possibility of a body of experts dedicated towards aiding the transition stage of companies.
    - Two further ones evoke the need for a more active financial education approach.

Q3.6: How could the EU support Member States to introduce/develop an occupational pension scheme with autoenrollment?

Possible roles for the EU

- Best practices and guidance
    - Seven Member States invite the EC to stimulate an exchange and uptake of best practices between interested members. Two further Member States refer to the possibility of recommendations in this context.
    - Two other Member States call for EC directions towards aligned autoenrollment criteria respectively for an EU role in explaining the rationale and benefits for introducing such scheme on top of a 3-pillar pension system.
    - In the same spirit, a Member State proposed two ideas to implement a greater collaboration: first the creation of a data sharing platform regarding occupational pensions and autoenrollment enabling the exchange of data, case studies, and assessment of practices; second, the EU publication of regular reports comparing the autoenrollment schemes performance across Member States, which would create a competitive environment encouraging improvements.
    - One Member State suggests the EU could provide different platforms solely dedicated towards the implementation and maintenance of such schemes.
- Technical support
    - Four Member States welcome the EC’s role in providing advice and expertise to introduce such a scheme and one of them refers to a combination of technical and financial support.
    - One Member State shared its positive experience with OECD and EC Technical Support Instrument (under Regulation 2021/240) and proposed studies to help Member States.
    - A further Member State encourages the cooperation with international standard setting bodies (OECD and IOPS). Another one sees a positive role of the Occupational Pensions Stakeholder Group of EIOPA.

Sceptic views

Five Member States did not reply to this question and four others indicated they are not willing to introduce autoenrollment.

Two Member States expressed concerns: one about the disfavoring of smaller capital markets, calling instead for the introduction of solutions to individually develop the third pillar; the other Member State calling for the facilitation of the underlying pooling of assets rather than a harmonized pension product, which it sees as potentially too complex.

The most frequent reaction relates to national considerations and interests.

- Some Member States underline the importance of national context and characteristics.
- One Member State explains that the need for complementary occupational pension schemes varies between Member States depending on the comprehensiveness of pillar 1 pension schemes.
- Other Member States reason that supplementary pensions are national competences, that Member States are best positioned to design systems based on their national frame, and thus that the organization and implementation of occupational pension schemes should remain at national level.
- Another Member State recalled the role of social partners, which would be thus the ones to be consulted.

Q3.7: Do you have one or more pension tracking systems that allow citizens to check their future retirement income? If so, please describe it/them very briefly.

The presence of pensions tracking system varies significantly across the Member States, with the main difference relating to the coverage across pension "pillars". Moreover, the distinction between the display of personalized information and tracked information appears sometimes unclear (see also 3.8).

Existing systems

- Four Member States have tracking systems covering the three pillars.
  - One Member State developed a platform - by a collaborative effort between pension funds, banks, insurance companies, and public authorities - to view the projected pension income and to help retirement planning.
  - Another gives a broader view of retirement benefits, all pillars combined, with details in real time and online.
  - A third Member State developed a system - in collaboration between the state and the insurance industry- covering 99% of the total amount of pensions capital. It includes pension forecasts, user-friendly tools and is a free and independent service.
  - The fourth Member State has separate tools for the first and the second/third pillar.
- Six Member States have the first two pillars covered, allowing citizens to check either the current status of the pensions scheme, the expected future income or a personalized overview of some key data, how many pension points have been accrued and the length of social insurance periods, to access the years' wages and social transfer and contribution information, the pension forecast, accumulated capital in the second pension pillar, or lastly to have an overview of his/her pension benefits (net, monthly amounts).
- Four Member States have developed tracking systems covering the first pillar only.
  - In a first Member State, the monitoring system allows to view your own data and the accrued pension among other information. A second Member State proposed two types of simulation: automatic and tailor-made simulation. Another one permits access their social security records and to predict the future pension entitlement while adjusting some features. The fourth Member State presents its online calculator through which citizens can obtain information on public and occupational pension claims.
  - Another Member State disposes of services with tracking capabilities for the first pillar (i.e. information about their contributions and estimated future pension benefits from the public pension system) as well as more limited information on the second and third pillar (i.e. about accumulated capital through the financial institutions managing their funds).
- Additionally, one Member State has recently implemented a pension tracking system via a secured government platform but only for the second pillar in order to allow employees and self-employed workers to track the annual and the accumulated pension contributions paid for them.

Member States without tracking systems

- Four Member States do not have a pension tracking system but referred to alternatives. One of them indicated they display general information and three propose calculator services to estimate the future pensions income.
- Seven Member States explained they do not have any centralized tracking systems at the moment, even though one of them attempted in the past.

Q3.7.1: Could you also describe your positive and negative experience with the pension tracking systems (good and best practices), if possible, based on user feedback? This section also covers information about **Q3.7.2** on the coverage of the tracking systems.

Experiences

Regarding experiences with pension tracking systems, 17 Member States did not reply or were unable to provide feedback. The other Member States shared predominantly positive experiences.

- The pension tracking system has been a very efficient tool against the lost pensions rights.
- If increasing awareness is still the challenge, the use of the tracking means at disposition is increasing year by year.
- Positive feedback from users also includes the high coverage of the pensions tracking system, its neutrality, being free of charge, and adaptability for the member, easy online access and displaying of all relevant information.
- As for the negative experiences, two Member States reported negative feedback about user-friendliness of the tracking system in place, and about the difficulties in validating the model to fit the specificities of every pension plan.

The actual use of tracking systems

- A significant part of Member States argues that theoretically all the population enrolled in a pension scheme would be covered. Two Member States state the same coverage but under the condition of an electronic ID; without it, the pension tracking system is not available.
- Three of the Member States that have a pension tracking system were able to assess the visits on the pensions tracking website. One of them reported that one adult out of three visited the website of the pension tracking system in 2023. The second Member State reported that it has been visited by 60% of the population aged between 16 and 80 and by 90% regarding the population aged 65 to 69 in 2024. The third Member State reported an equivalent to 6% of the active and retired population in the first nine months of 2023.

Best practices

Several Member States also shared best practices.

- For one of them, the involvement of all stakeholders (including the professional federations representing banks and insurers) was important.
- For a second Member State, a pension tracking system should be of high coverage while a third highlighted comparable results, information and scenario fully presented and explained, and data up-to date.
- Another stated that a simple and clear layout and a focus on key information only, as well as the display of compensated amount for expected future inflation is a best practice. It was also underlined that too much information, which is of limited use for members, should be avoided.
- One Member State reported that for a collaborative pension tracking system, it would require a focus from public authorities to ensure that the information provided by pension funds, banks, insurance companies, and so on is calculated by approved methods.

Q3.7.3: If you do not have such tracking system, what are the main obstacles to creating one?

- 15 Member States did not provide an answer to the question. The other Member States reported as main obstacles issues related to data collection and aggregation, the establishment of an interoperating body (one that will interoperate with all relevant bodies like pension funds/entities from all pillars of the pension system and will process and manage all the information) and lastly the complexity of the pensions system.
- Regarding data collection,
    - One Member State encountered reluctance from Pillar 1 to provide data.

- One Member State underlined the challenge of not having centrally registered data
    - One Member State underlined the challenge of ensuring the required data is duly obtained from different sources (state, pensions companies, financial market participants, residents
    - One Member State underlined the challenge of the necessity to collect the information in the same format, regularly.
- Another obstacle is the establishment of an interoperating body. Some Member States questioned who will collect, process and manage, the data from different sources, who will interpret it for members and whether the pensions tracking system will include data held in all types of saving vehicles (banks, investments funds, …). Another Member State expresses the need for an administrator (to collect and manage the data from all the different sources).
- Two Member States stated as obstacles the complexity of having a full tracking system for the pension scheme in place and the creation and maintenance costs, respectively
- Other than these obstacles, one Member State reported that it is forbidden for pension fund management companies to estimate future retirement income.

Q3.8: At EU level, what are the main functionalities that could be provided by a pension dashboard that would allow for Member States and EU policy-makers to identify pension gaps and analyse adequacy of national pensions systems across pillars?
Q3.9: Do you think that such a dashboard should be developed by the European Commission (in cooperation with EIOPA)?

Member States reported divided views about the desirability of a pension dashboard, with most of them stating caveats or challenges.

- For a few of them, the delineation between pension tracking and a pension dashboard was not clear.
- Two Member States wrote that they already have a dashboard at national level and
- A third one suggested it should be created only for those Member States for which it is useful and provides value added.

Specific proposals

- Four Member States provided specific ideas for the functionality of a dashboard. Two respondents suggest a focus on pension adequacy and a potential use for policy simulations, one respondent suggest indicators that identify the socio-economic characteristics of members of pension schemes and one a broad set of indicators.
- Two Member States saw merit in expanding the already existing tools at EU level (Ageing report, Adequacy report, Missoc) which focus on statutory pensions, to supplementary pensions. A third Member State insisted a dashboard should be based on existing tools. Three other Member States also saw value added in a tool that combined public and private pension schemes.
- Four further Member States were generally positive to developing a dashboard under conditions. It should be based on existing data, avoid complexity and redundancies, be sufficiently granular and would require solving a number of data and competence issues.

Caveats and limitations

- Three Member State saw no need or value added for a dashboard at EU level and a fourth one insisted it was in the remit of the Member State to develop it. Three further Member States cautioned that the cross-country differences in pension systems limit the useability of a dashboard and may cause misreading, a third one emphasised the difficulty to aggregate data across pension pillars and the underlying competence issues.
- A further Member State replied to a dashboard could provide policy focus, but the development of best practices was more important. Another Member State held the view that thematic reports were more useful than dashboards.

- Regarding the capacity of EIOPA to produce a dashboard, three Member States referred to limits in the competence of EIOPA in doing so with a broad coverage. One Member State wondered about interaction with financial data sharing schemes under the FIDA proposal.

d. Financial literacy

Q4.1: Does your Member State already have a national financial literacy strategy? If not, do you have plans to establish one? What is the current state of play?

National Financial Literacy Strategy

The vast majority of EU Member States already have a national financial literacy strategy in place, with some having updated or revised their strategies in recent years. These strategies often involve collaboration between government bodies, educational institutions, and financial organizations, and aim to enhance financial knowledge and capabilities among citizens, particularly vulnerable groups such as children, youth, and low-income families.

- Some Member States have implemented their financial literacy strategy this year in collaboration with the OECD and with the aid of EU financing through the Technical Support Instrument.
- Some common goals and priorities of these strategies include promoting financial inclusion, improving financial resilience, increasing access to financial education and information, and supporting consumers in making improved financial decisions. Many Member States have also established dedicated committees or councils to oversee the implementation of their financial literacy strategies.
- Among the Member States that do not have a national strategy there are two that have started to work on their national financial strategy in collaboration with the OECD. Another Member State is reflecting on streamlining their existing initiatives on financial literacy into a single national strategy.
- Finally, there are four Member States that do not have a national plan on financial literacy and do not have plans to implement one. However, three of these Member States do have financial literacy initiatives that are implemented in schools and beyond.

Overall, the majority of Member States recognise the importance of financial literacy and are taking steps to promote it, with a focus on improving financial knowledge, skills, and behaviours among their citizens.

Q4.2: Are measures planned to improve retail investors' financial literacy, including to follow up on the Council Conclusions on financial literacy adopted in May 2024? If yes, please provide information on:

- what is planned and when will it be rolled out (very brief description)?
- does it make use of the EU/OECD competence frameworks for adults and children? Please briefly explain to what extent this is the case;
- whether and how financial education will be integrated into school curricula.

are any of the measures specifically meant for financial literacy of entrepreneurs and/or SME owners and managers. Please provide a very brief description.

Financial Literacy Measures

All Member States have financial literacy measures planned albeit with a great variety of scope, medium, resources and objectives.

- Some Member States have created working groups to review and analyse their strategy and the initiatives carried out.

- Some Member States have established dedicated websites and platforms to provide financial education and information to consumers.
- One Member State has developed mobile applications to promote financial literacy.
- One Member State has developed an interactive centre for financial education where students can experience a variety of financial situations.
- A few Member States have conducted surveys to assess the level of financial literacy among their population, including retail investors and entrepreneurs. These surveys help to identify areas for improvement and inform the development of financial literacy strategies. Some Member States have also established monitoring and evaluation frameworks to track the effectiveness of their financial literacy programs.
- Some Member States have also organized workshops and “festivals” to bring together practitioners and different stakeholders to discuss financial literacy initiatives.

Use of the EU/OECD competence framework

- Several Member States have emphasized the importance of using the EU/OECD competence frameworks for adults and children in the development of their financial literacy strategies. These frameworks provide a common reference point for the development of financial literacy measures and help to ensure that financial education programs are effective and relevant. Some Member States have also developed their own national competence frameworks, of which some are being revised and will take into account the EU/OECD frameworks in this revision.

Financial Literacy as part of school curricula

- Finally, almost all Member States have stated that they are or will include financial literacy within their school curricula. Most of the Member States that have already integrated financial literacy into their school curricula have done so horizontally amongst several different subjects including math’s, history, and others.
- However, some Member States have integrated it through a specific entrepreneurship / economics / social sciences class.
- Some Member States start integrating financial education from primary school and onwards while others start at secondary school. The topics covered in financial education programs vary, but often include basic financial concepts, budgeting, saving, and investing. Finally other Member States are currently analysing how to integrate financial literacy into their syllabus.
- Some Member States do not have the competence to include financial literacy within their school curricula due to constitutional limits at the national level.

Financial Literacy for SMEs and Entrepreneurs

Most Member States have also developed specific measures to improve the financial literacy of entrepreneurs and SME owners and managers, including training programs, workshops, and online resources. These measures aim to help entrepreneurs and SMEs make informed financial decisions and access financial services and products.

Q4.3: Are there any nudging practices in place to push consumers towards saving more for retirement?

Have nudging practices

Many Member States have implemented nudging practices to encourage consumers to save more for retirement. These practices include automatic enrollment in pension schemes tax incentives for voluntary contributions , and financial education programs to raise awareness about the importance of retirement savings.

Specific types of nudging practices

- In terms of tax incentives, they usually take the form of fiscal benefits for voluntary contributions to pension schemes. For example, some Member States offer tax deductions for contributions made to a pension plan.
- Financial education programs are also being used to raise awareness about the importance of retirement savings. These programs may include workshops, seminars, and online resources to help consumers understand the benefits of saving for retirement and how to make informed decisions about their pension plans. Some Member States have also introduced financial literacy programs specifically for young people, to help them understand the importance of saving for retirement from an early age.
- Some Member States have also implemented measures to encourage employers to offer pension plans to their employees. For example, some have introduced measures to make it easier for small and medium-sized enterprises (SMEs) to offer pension plans to their employees.

Q4.4: What additional measures should be undertaken at EU and MS level to improve citizens' awareness as to their potential savings and investment needs to secure an appropriate income, including at retirement age?

Suggestions for the EU

- Member States widely believed that financial literacy should remain high on the agenda for the EU. Some MS also claimed that the EU could provide guidance for helping vulnerable groups.
- Some Member States suggested that the EU could have a role in facilitating an exchange of best practices.
- Several Member States believe the EU should lead or take part inan EU-wide communication campaign on financial literacy along with MS.
- However, other MS believed that the EU should not do anything rather it should be done at national level or that it should simply retain a coordination role.

Suggestions for Member States

- In terms of suggestion for Member States one suggested fostering stronger collaboration and networking between countries within the framework of their respective National Financial Literacy Strategies which could help identify common approaches to competence development and enhance the effectiveness of financial education across the EU.
- Another reminded the importance of focusing on the most vulnerable groups.
- Some MS suggested collaboration between MS on an exchange of best practices, especially in the context of developing a national strategy on financial literacy.
- Some Member States also made suggestions beyond financial literacy such as increasing tax incentives for personal savings and investments in pension funds, developing simple and secure investment products.

e. Distribution channels and other factors

Q5.1: What could Member States/EU do for an efficient distribution of suitable and more cost-efficient financial products to retail investors?

Mixed views on the retail investment strategy

Numerous Member States provide an assessment of the Retail investment strategy (RIS) and measures thereunder, yielding a rather mixed overall picture.

- Whereas at least four Member States consider RIS an important building block, and further three emphasise the importance of robust consumer protection standards, one response describes the complexity of RIS as discouraging retail investment, another one argues that RIS should not excessively discourage risk taking and a third one that no further measures should be envisaged beyond the RIS.
- One Member State considers robust cost definitions an important objective, and two further consider the value for money concept to play a key role. A fourth argued that the concept has not yet been proven effective.
- Two Member States expect a positive contribution from a ban on inducements. One of them with reference to its track record with such a ban, the other one with reference to a new experience in which inducements are only allowed under conditions of better services for customers (advice, additional choices).
- Two further Member States request better advice with one specifying the training for advisers and the other one adding the need to develop financial products that focus on consumers' needs.

Scope for further measures

Some Member States see scope for targeted measures in various areas.

- Six Member States aim to enhance information to retail investors either in general terms such as more simplified and harmonised information, or, with a view to digital distribution, the ease of on-line readability or through more specifical measures such as the development of comparison tools, a central website for pension plans, more transparent and streamlined information on the costs of investment funds.
- Four Member States suggest measures to facilitate investors' decisions such as standards, a label or EU-wide public benchmarks.
- Three Member States make suggestions for specific legislative changes.
  - The first one asks for reversing the payment-for-order-flow prohibition,
  - the second one advocates a more flexible approach for PRIIPS or the regular product governance process, and
  - the third one aims to introduce the concept of undue costs into MIFID, similar to UCITS and AFMD.

Pensions: Three Member States emphasise the role of pension products and pension services, which one of them considers a potential game changer. A second suggests tax incentives to develop third pillar pensions, the third one suggests enhancing the rules governing customer information for non-insurance-based investment products (IBIPs), particularly in relation to the risks involved and the costs associated with these products.

Framework conditions

A few Member States advocate measures to improve the distribution of financial products that are taken up in other questions,

- for instance, financial literacy, digital solutions and enhanced competition through dismantling obstacles for cross-border providers.
- One Member State suggests attention be paid to converging supervision on products' costs and on distribution's costs and another one standardising tax treatment to foster cross-border distribution.
- Three Member States find it important to reduce regulatory burden, with one of them specifying it as a regulatory burden on digital distribution.

Q5.2: How could more opportunities for cross border investment be created?

Obstacles to cross-border investment

A large number of Member States argue that measures to increase domestic retail investor participation are also effective in fostering cross-border investment. In this regard, they refer to financial literacy, digitalisation, reduction of the regulatory burden and the role of the Retail investment strategy.

A considerable number of Member States identified differences in national regulations as obstacles to the efficient use of passports.

- Specific obstacles relate to local marketing requirements and investor protection rules, the lack of common terms and definitions, extraordinary reporting of cross-border activities.
- Two Member States list differences in insolvency frameworks as an obstacle, with one of them advocating targeted harmonisation and the other one specifying the need to address rules regarding financial collateral and settlement.
- Two Member States flag supervisory practices as an obstacle,
    - one demanding effective and timely cooperation between national competent authorities and
    - the other one, i.a. a strengthened system of cross-border conduct supervision.
    - A third Member State refers to differences in complaint-handling requirements, identified in a recent EBA report, that can lead to either two or no authority supervising firms' internal complaint-handling procedures.
- One Member State found that the factors inhibiting the use of passports were less of legal, but of practical and organisational nature. Especially for smaller entities that are not part of a larger group, knowledge and resources are obstacles.
- One Member State referred to the large set of divergences in corporate law, rules on collateral, insolvency and creditor hierarchy, as well as rules of procedure before courts, as elements which may render the development of products offering pan-European exposures inherently more expensive, and offsetting economies of scale.

Standardised Cross-Border Products

Several Member States propose the development of EU standardised and comparable cross-border products, with differences in the features considered as important, whereas it was also noted that several savings products, such as UCITS, are already available and that for example index funds offer cost-efficient, simple and diversified saving opportunities for retail investors.

- One Member State finds it important they focus on consumers' needs, a second that they are easy to understand and compare.
- One Member State sees a role for European sovereign bonds as retail investment products,
- another one argues that favourable tax treatment should only be granted to products that aim to predominantly channel financing towards the European economy.
- One of them cautions that sale strategies that include the packaging of products into a single product could be undermining the usefulness and comparability of harmonised cost indicators.

Improving Visibility of Information

Three Member States make proposals to improve visibility of information.

- Make relevant information on cross-border investment opportunities available on the investment platforms used by investors.
- Clearly displaying the fees of financial products is important to support the choice of cost-efficient financial products, such as index funds. One Member State publishes figures of the median yearly fixed management fee for certain equity funds (both index funds and actively managed funds).
- ensure key performance indicators for SMEs are introduced into the European Single Access Point

- introduce an "IFRS light" for SMEs.
- One of them also suggests EU-wide initiatives using the format of the European Tech Champions Initiative.

Other Proposals

- One Member State indicated inefficient withholding procedures as an obstacle to cross-border investment.
- Another Member State suggests consolidation of certain market infrastructures.
- Two other ones suggest the EU allow the prospectus to be handed in in other languages than the official language.

Furthermore, two Member States caution on the alleged benefits of an EU-wide approach.

- One of them argues that tax benefits, applicable pension systems, national investor preferences, differences in culture, historical experiences and financial education require products that are specifically tailored to local markets.
- The second one diagnosed that language and behaviour lead to reluctance to invest in cross border products. It counts on the young generation and its digital skills to overcome these barriers.

Q5.3: How could the use of digital advice and distribution channels be further promoted?

Positive Picture of Digital Financial Services

Many Member States paint a positive picture of their retail investors' uptake of digital financial services or the potential of digital means to both participate in and benefit from retail investment.

- Three Member States suggest digital technology should be used to improve the financial-ecosystem.
- One of them argues that consumer surveys could help understand why investors are reluctant to invest digitally and that financial service providers could set lower fees to incentivise the use of digital distribution channels.

Risks to consumers and measures to counter risks

A big group of Member States highlighted the emergence of new risks to consumers, especially young consumers, those with a low level of financial literacy and those who are less tech-savvy. Specific risks relate to firms exploiting behavioural aspects on apps and other online environments to steer consumers to financial services or products that are not suitable or expensive.

Regarding measures to counter these risks,

- Some Member States recommend EU regulatory standards for digital advisors to protect consumers from fraud, mis-selling and other unethical practices (such as the use of dark patterns in digital interfaces), and to ensure that financial advisors act in the best interest of their clients.
- Another Member State finds it important to continue following such trends together with NCAs and the industry. It suggests regular communication between regulators, industry stakeholders and consumer representatives as a starting point for establishing clear regulatory guidelines for digital financial services with the objective to ensure a level playing field among all market participants at EU level. Another Member State reported it was reviewing its consumer protection rules including with regard to digitalisation, effective information to consumers and vulnerability.
- One Member State suggests making information disclosure more effective by ensuring key aspects are provided in the right choice architecture, which could imply improving key information documents customized to the target market and the goal of the document's usage.

- Two Member States consider it important to supplement the rising use of digital means by preserving traditional distribution channels, with one of them adding that the telecommunication infrastructure in remote and underserved areas would need to be improved.

Financial digital education and literacy

Many Member States attribute an important role to financial education and technical competence.

- One suggests that familiarisation with tools such as robo-advice and online distribution should be part of the financial literacy program,
- another one recommends encouraging public-private partnerships to this end.
- A third Member State reported its actions surrounding numerical and digital literacy which it finds relevant to the work of advancing financial literacy.
- A fourth Member State suggests specific financial education measures to target the younger generation and
- A further three cover also technical or digital competence as relevant factors in addition to financial literacy.
- One Member State suggested promoting best practices in advertising through digital channels, accompanied by measures to increase awareness and knowledge of investors, including on the functioning of crypto-asset markets.

Technological solutions

- Two Member States highlight the importance of the e-ID and digital identity wallet in enabling a further uptake and facilitating access.
- A third one reported from legislative progress that led to development of a mobile app, allowing from June 2025 to contract digitally with financial service providers.
- A fourth Member State suggests reflections on the use of biometric or alternative authentication methods to reduce the need for complex passwords and PINs, bearing in mind the need for data protection.
- At least three Member States noted the importance of how information is transmitted, and suggested relying i.a. on:
    - trusted portals where comparison tools regarding advisory services and financial products are available,
    - user-friendly interfaces that are also accessible to the elderly and people with limited digital literacy or
    - displaying information on the financial products in a format that is readable on screen/ mobile.

Enabling the industry

A small group of Member States indicate measures to support incentives for digital solutions in the financial industry. Suggestions include

- subsidies or incentives for the development and adoption of inclusive financial technologies;
- reducing the regulatory burden affecting the use of digital distribution channels, in particular by a simplification of applicable duties of information vis-à-vis clients;
- cautioning that excessive regulations and implementation of new regulations and amendments to existing regulations is burdensome, time-consuming and resource-intensive for investment firms;
- consider a ban on inducement for financial products, motivated by the observation of a wave of innovation from both small fintech companies and traditional investment firms leading to well-diversified, simple investment products and services and delivering value for money for retail investors as a consequence of such a ban.

Q5.4: Please mention any other aspects or national practices you consider relevant in relation to any of the topics above?

Trust in Capital Market Investment

Two Member States reiterate the importance of trust to attract citizens to capital market investment.

- One of them considers high retail investor protection as crucial to achieve this,
- the other one adds that the long-term return on savings transparency and market integration were further relevant factors.

Impact Assessments and Regulatory Simplification

- One Member State requests that the Commission's legislative proposals be accompanied by in-depth and rigorous impact assessments, allowing for a clear demonstration of the merits and risks of said proposals.
- The same Member State suggests legislative proposals should be oriented by a principle of regulatory simplification and reduction of the reporting burdens. The reliance of European regulation on Level 2 and Level 3 rules (RTS, ITS, FAQs) should be reduced in every feasible case, so that the fundamental aspects of the legislation are discussed and enshrined in Level 1.

Other Issues Already Covered

- Five Member States covered issues that were already mentioned in their replies to other questions, such as supervision, financial and digital literacy, and investment products. These responses were therefore reported in the relevant sections above.