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What do we see as priorities for the CMU to have a good chance to solve the pension dilemma?

Written as of March 16th, 2020 - The Capital Markets Union (CMU) has the ambitious mission to align and integrate Europe's financial system. This is a challenging but critical task, as the success of the CMU may well determine not only the strength of the EU's economy and its financial sector, but also the ability of its institutions and companies to serve its citizens now, and in the future.

If the main CMU's goals are fulfilled, two imperative needs of citizens will be solved: maximise their current quality of life and their current income by mobilizing capital to invest in Europe's companies, while simultaneously putting savings to work to guarantee retirement income adequacy.

Our starting point is the EU's very fragmented capital market from a regulatory point of view. National tax, corporate, securities and insolvency laws, come on top of very different procedures and practices from country to country. In addition, Member States are on very different stages of their respective business cycles, which makes it hard to make that one solution fits all.

This diversity quickly becomes complexity and it deters market access and portability. Greater harmonisation across Member States will facilitate broader and more diversified investment opportunities for pensions funds and the ultimate savers they represent. In the absence of further alignment between Member States markets will be unable to play their role in maximising retirement income adequacy.

Cross border alignment and collaboration, as well as openness to change in favour of innovation, simplification and harmonisation will be key to solve the structural pension threat. Priorities in my view are :

1) channelling long-term savings into financing entrepreneurship;

2) rethinking individual Member State approaches in favour of greater Pan European coherence, and 3) ensuring global competition of the EU in capital markets.

- **Channelling long-term savings into financing entrepreneurship;** A regulatory environment favourable to long-term investment would certainly help to enhance the offering of available savings products such as employees' savings schemes. Member States should work together and share best practices to undertake aligned measures that expand the amount of pension savings being invested. For this, unnecessary obstacles would have to be removed, and tax incentives would provide a much-needed support. One way to do this would be to recommit to a Pan European Pension Plan that allows citizens in all member states to direct their retirement savings into the capital markets in an aggregated and risk controlled way, with common regulatory and taxation principles that allow these savings to be transportable between countries in an efficient manner.
- **Rethinking individual Member State approaches in favour of greater Pan European coherence;** Member States should be encouraged to simplify and standardise withholding tax procedures and mutual fund taxation to encourage increased retail participation as well as greater cross-border asset ownership for institutional investors.
- **Ensuring global competition of the EU in capital markets;** Deeper and more competitive financial markets will contribute to growth through efficient allocation of capital. We need policy measures that balance market resiliency, market integrity and appropriate supervision with keeping Europe's capital markets sufficiently open and competitive in order to grow their capacity. This will promote further investment, continue to reduce reliance on banks and will create employment. There is also significant room to improve integration of financial centres, and to attract investors and companies from around the world.

In a nutshell, the investment challenge is well beyond the capacity of the public sector alone. Within the ambitious mission of the CMU, asset managers not only will help savers maximise their returns and mitigate investment risks, but also will be able to act as active stewards of capital, supporting sustainability through important extra-financial considerations such as ESG and climate, contributing to long-term health and sustainability of capital markets and society as a whole.