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Capital Markets Union - The need for a strategy for retail investors

In an article published in April 2020 by Eurofi, I argued that we needed rapid, clear and incisive policy measures to build a capital markets union.

I do believe that the Capital Markets Union High Level Forum (HLF) has put such a set of policy measures on the table, and I do urge the European Commission to act on the recommendations contained in the Final Report. In his introduction to the Final Report, Thomas Wieser, the Chair of the HLF, stresses that the recommendations of the HLF are “mutually reinforcing, and dependent on each other”.

This is a very important point that I want to illustrate by looking at some of the HLF recommendations that are particularly relevant for retail investors. The perspective of retail investors is especially important because retail investors, namely, households, are the ultimate investors in capital market instruments, and because, in the words of the Final Report, “households often refrain from investments because they do not trust or understand financial markets”. This is a damning statement, and a statement that raises a point of key importance. For the Capital Market Union project to be a success, a critical precondition is that households do have a better understanding of, and a greater trust in, financial markets, and, in particular, capital markets.

The Final Report does contain a valuable recommendation (Recommendation 12) on financial literacy and education. But by itself this recommendation will not achieve results. This is because the problem is not just that households understand financial markets insufficiently; part of the problem may be that they understand some aspects of financial markets too well. From the perspective of a household, engaging with European capital markets, investing in, and holding, capital market assets, and managing the fiscal procedures and obligations, is complex, opaque, and burdensome.

The heart of several of the recommendations of the Final Report is to create common definitions, common standards, and a common access to information. Common definitions and standards reduce complexity; they provide greater transparency; they facilitate access to information; they reduce barriers to accessing markets; and, in addition, they create the possibility for fair, accurate, and easily understandable narratives that explain how capital markets function in channelling funds into socially and economically useful investments, and how they provide investment income. The

single most important recommendation in the Final Report that delivers simplicity, comprehensibility, and tangible benefits to households is Recommendation 15 on withholding tax processes. This recommendation is critical, precisely because tax procedures are currently so opaque and burdensome, and because fiscal impacts are critical for the return on a capital markets investment.

A second critical recommendation that builds on common definitions and standards, and that delivers transparency and legal certainty and reduces operational burdens for investors and intermediaries, is Recommendation 9 on shareholder rights. In August, the Association of Global Custodians published a hard-hitting paper that sets out why we need Recommendation 9 as a matter of urgency. Embedded within Recommendation 1 on a European Single Access Point is a requirement for the harmonisation and standardisation of content and format of European company data. Building a pan-European Single Access Point allowing free and unrestricted access to pan-European issuer data will be game-changer in the creation of pan-European capital market narratives.

In the April 2020 Eurofi article, I also wrote that we needed three things. We needed measures to bring investors to the market; we needed measures to bring issuers to the market; and we needed measures that reduce cost, complexity and risk in the use of infrastructure and intermediaries.

I stand by these words. But, I think that we need more. We need a strategy that makes capital markets attractive and understandable for retail investors. The recommendations contained in the Final Report of the CMU HLF will be an important part of this strategy. ●