IDC Independent Directors Council
Promoting Excellence in Fund Governance

The Future of European Financial Markets, 9th Annual QED Fund Regulation Conference

Panel: The Future of European Financial Markets

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Paul Schott Stevens
President and CEO
Investment Company Institute

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As prepared for delivery.

Thank you, Marcel, and thanks as well to all participating in today's discussions, and to everyone in attendance. You know, as I approach the end of my 16 1/2 years as president and CEO of the Investment Company Institute, I look back on so many occasions like today—in which I have taken part in a dialogue on important policy issues affecting the financial system.

I believe that exchanges like this contribute to better policymaking and better outcomes for our markets, our economies, and ultimately our fellow citizens. And I have been involved in such an exchange of views in many settings around the world. ICI is unique in that we are a global association of regulated funds with a membership that spans six continents and a global policy agenda.

The topic we'll be exploring on this panel—the future of European financial markets—is one that would merit serious discussion at any time. But as we gather here today, in the shadow of the COVID-19 pandemic; in the midst of Europe's worst economic shock since World War II; in the throes of a deep, painful recession; the future of Europe's financial markets has never mattered more.

Like the United States and many other countries, Europe faces a long, challenging road to recovery, and the journey has only just begun. And as in other countries, financial markets will play a critical role

in the ability of the EU to meet the needs of the moment. Consider Europe's emergency recovery plan—Next Generation EU—which co-legislators are now negotiating toward a final agreement.

As adopted by the European Council in July, the plan reinforces Europe's traditional long-term budget—the Multiannual Financial Framework—and earmarks an extra 750 billion euros over three years to support Member States in their recovery, kickstart the EU economy, and address the lessons of the crisis. No question, it is an extraordinary outlay. But these are extraordinary times. And if Europe is going to emerge stronger from the crisis, an even more ambitious approach may be needed.

The recovery plan relies primarily on financing from bank loans and tax revenue. These sources of financing are absolutely essential. But will they suffice for a robust and sustained recovery? Will they be enough to revive Europe's many small- and medium-sized enterprises? As you know, SMEs accounted for two of every three jobs on the Continent and half its GDP when the crisis hit. And they have been hit much harder than their larger counterparts.

Or might the EU rely to a greater extent on capital markets financing to aggregate capital from savers and investors and allocate it to productive uses in the economy? All these are fair questions, I think.

You know, I have spoken to many audiences about the benefits that strong and deep capital markets provide. In these, some of my last public remarks at ICI, I happily return to this subject. I believe the key to enhancing Europe's economic recovery efforts is plain for all to see, strengthening Europe's capital markets, by fostering robust retail-investor participation in them.

Why? Because deep, liquid capital markets can channel capital most efficiently to the companies that urgently need it, while helping citizens replenish and grow their own savings as they continue working toward their long-term financial goals. Now, policymakers could approach this endeavor in any number of ways. But the most successful approaches will encourage the use of investments that can best mobilize this capital—regulated funds—and aspire toward three important objectives.

The first is to open up the fund marketplace. Thanks to a number of tough regulatory barriers, distributing funds across Member States remains far too costly, far too complex, and far too confusing. This uninviting environment discourages firms from offering their funds across borders, and it explains a lot about why so many funds are sold in only one or a few Member States, and why on average they are small in size.

Streamlining and harmonizing Member States' rules—especially around fund marketing and authorization—would enable funds to reach citizens across the Continent simply, efficiently, and inexpensively. It would increase competition. For retail investors, it would mean a broader selection of fund products to choose from, and lower charges to purchase their shares.

The second objective is to modernize fund disclosure. As it stands, Europe's disclosure rules require regulated funds to swamp retail investors with sundry, needlessly complex disclosure

documents—which are invariably dense and devilish to decipher, and often inconsistent across Member States. Harmonizing rules is part of the answer here as well. But policymakers can also help by allowing fund materials to be more user-friendly and engaging, and to accommodate investors' growing use of technology.

This two-fold solution should entail making electronic delivery the default method for sending durable-medium disclosures and other materials to investors and giving fund management companies more flexibility to develop electronic disclosures that can increase investors' engagement in their financial futures and enhance their understanding of long-term investing.

The third objective is to improve pension provision. In recent years, a bevy of challenges, both economic and demographic, have cranked up the pressure on Europe's pension systems, and EU citizens remain in urgent need of more effective alternatives to help them save for their retirement. The idea of a pan-European personal pension, or PEPP, product is indeed a very sensible one. But if implemented in the form in which it was adopted last year, I fear it will fall far short of its potential.

The task now for policymakers who support a PEPP product in principle is to develop one that will work in practice. This requires providing more flexibility in how fund managers can design investments for use in a PEPP product and will also necessitate crafting a workable tax regime for it.

A PEPP product that works in practice will position more EU citizens to direct more of their retirement savings into market-based instruments, which will produce much higher returns over the long run as compared to bank deposits, will alleviate some of the pressure on traditional pensions, and will also help as a source of financing to the EU economy. That would be a WIN-WIN-WIN outcome for the EU.

Opening up the fund marketplace, modernizing fund disclosure, and improving pension provision. Each of these objectives would increase retail-investor participation in capital markets, and policymakers can realize them all through a well-crafted Capital Markets Union.

Of course, with the report issued by the European Commission's High-Level Forum in June, we're beginning to see substantial progress toward that end. And the Commission's new Capital Markets Union Action Plan, issued just a few days ago, looks set to build on that momentum. It won't be easy. But we can be confident that with a policy mix that fosters robust retail investment in capital markets—and the courage and commitment to match—Europe will ultimately emerge from the crisis, stronger than before and poised to thrive long into the future.

Thank you, and I look forward to hearing everyone's thoughts on these issues and others.

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