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First ideas: A potential future European Investment Label (EIL)

Introduction: the EU can mobilise savers’ money for its future prosperity

To finance the EU´s green and digital transformation and to provide financial security for an ageing population, the EU needs to turn retail savings in bank accounts into capital market investments. However, EU capital markets are shrinking by global comparison. Our share of global financial activity fell from 18% in 2006 to 10% in 2024, and it is further declining. At the same time, Europeans own 33 trillion euros in private savings, predominantly held in currency and deposits. This money needs to be put to work towards future prosperity and security.

Overview: a European Investment Label can be part of the solution

To turn savings into investments, a potential European Investment Label (EIL) must be carefully designed, meeting the needs of all market participants, while being as simple as possible for end users and other stakeholders. Otherwise, the distribution and explanation of the product becomes too costly, complex and ultimately unattractive. The Pan-European Pension Product (PEPP) is a proof for the unattractiveness of products which were designed in a too complicated fashion.

A potential EIL can be an important element in a successful Capital Markets Union if it

1. is trusted by retail investors by conforming to pre-designed consumer protection standards;
2. is suitable and appropriate by a standardised product design for a great majority of retail investors (i.e. requires no MiFID appropriateness test);
3. allows an efficient distribution as well as an non-bureaucratic and easy client onboarding process (as we see it for ETF purchases under the new rules) to enable easy access for investors;
4. works as a regular saving plan, also for small investment amounts to be attractive for many in the long-term;
5. can be marketed and sold via digital channels to reach the core target group of young people;
6. invests into EU-based assets to finance the EU´s strategic goals (e.g. green/digital transition and increased retirement savings);
7. enjoys certain tax incentives to create a solid value proposition for investors ;
8. enables long-term investments with a minimum holding period (e.g. 15 years);
9. Invests for the long term into diversified asset classes, liquid and illiquid investments (e.g. equities, bonds and alternative investments);
10. does not invent a totally new product class sui generis but establishes an EU label with minimum requirements for product features applied under existing product regulations (e.g. UCITS/ELTIFS) and allow products with potentially additional eligible assets (e.g. commodities) for retail investors, allowing further standardisation and harmonisation over time.

Details: only a diversified, tax-incentivised and simple EIL will attract new investors

This preliminary outline on establishing an EIL should ensure that the needs above are addressed accordingly. Diversified asset classes and investment strategies:

1. Explicit investment rules and requirements for the EIL such as
    - Minimum diversification requirements, e.g.
        - for UCITS-eligible assets according to current UCITS diversification rules;
        - for other assets according to ELTIF (retail version) diversification rules.

    - Minimum investment level in asset classes supporting the (real) EU economy (min. [50] %), the European infrastructure transformation, and other policy and strategic objectives.
        - Min. [20] % unlisted European infrastructure investments (e.g. ELTIFs)
2. For an old-age provisioning focus: additional age-dependent diversified investment strategy (a.k.a. life-cycle strategy) reflecting investors´ evolving risk tolerance and enabling best value for money.

As first ideas, we discuss two options for structuring investment portfolios (i.e. wrappers) under a potential EIL in the most efficient way, focusing on investor protection and value for money:

1. **Option: Dedicated EIL funds**
    - EIL funds structured to reflect different risk tolerances and liquidity requirements of investors.
    - Wrapper must allow a meaningful allocation in illiquid asset classes, particularly in European infrastructure.
    - Most efficient product manufacturing and administration would require asset managers to function as product owners.

2. **Option: Dedicated EIL accounts**
    - EIL account is provided by a third-party (e.g. bank, neo-broker, etc.).
    - Asset managers provide (key-) components such as investment funds and (age-dependent / strategic) asset allocations and strategies.

One of the main mass-market selling points for an EIL should be tax incentives. We are aware that taxes are predominantly a matter for national legislators. However, we discuss a joint approach (potentially of a coalition of the willing) for harmonised minimum tax standards to make an EIL a success. Conceptually two different approaches could be considered:

1. A tax-free saving period with a deferred and reduced taxation (e.g. by taxing only a percentage of the profit in the payout phase; conceptually the BVI proposal for a "Fondsspardepot" could provide guidance which suggests an increasing annual 2% tax allowance if a certain minimum amount is invested and is subject to additional restrictions such as annual maximum amounts).
2. Continued attractive tax exemption rate of product income and profits under existing national fund taxation rules (e.g. continuous exemption of 80-90% of otherwise taxable income and profit in the saving and payment phase); this approach would likely be more challenging in cross-border scenarios.

- The minimum tax standards may be accompanied by a standardised but efficient reporting scheme, which would capture the relevant information and allow non-bureaucratic international information exchange in order to address cross-border situations and transfers (e.g. people moving for work from one Member State to another).

Government incentives such as preferential tax treatment could be subject to a withdrawal age (e.g. 60 years) or minimum holding period (e.g. 15 years) to emphasize the long-term savings character and justify tax incentives. At the same time, it provides more stability for long-term financing, which EU companies seek. Earlier withdrawal could be allowed in cases of urgent personal needs such as becoming a parent, medical emergencies, founding a company, or educational needs.

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