

Invest Europe's response to European Commission's Consultation on Savings & Investment Accounts

Executive Summary

- Long-term funds, such as private equity, venture capital and infrastructure ones, are best placed to invest in businesses of value to EU competitiveness
- While long-term funds are not always opened directly to small retail investors, pension wrappers and other similar products/accounts can allow this type of investors to commit capital to EU productive companies through these long-term funds
- EU and national savings and investments accounts must therefore be designed so that long-term funds can effectively become eligible assets within these accounts

Introduction: private equity and retail investors

Private equity covers a wide range of closed-ended fund managers which all share the same business model, from small venture capital to large buy-out and infrastructure firms. They raise capital from investors looking for long-term yield which is then “pooled” into long-term (typically 10 years), illiquid, closed-ended and unleveraged funds and invested in direct equity investments in a dozen of businesses for an average of 5 years. Once these businesses have grown and/or evolved, thanks to both the capital and the know-how of managers, shares held in these businesses are sold or listed on the stock market through an IPO. Profits made are then returned to investors towards the end of the fund's life.

Because a few years are required before the capital committed and the actions taken by the manager bear fruit, selling early is rarely an interesting option for any private equity investor, **making it *de facto* a long-term, illiquid investment¹.**

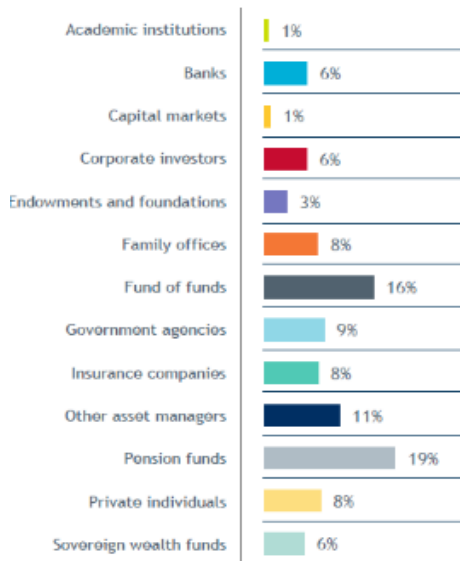
As was recognised in a wide array of recent reports, such a model is key to **provide financing to the companies** that are most likely to improve **EU competitiveness**. **Start-ups, scale-ups and large infrastructure deals all require long-term investments.** All benefit both from the support and expertise of EU managers and from the long-term horizon of their funds.

Incentivising retail customers to commit a small part of their capital to these long-term assets would therefore help **drive the EU climate, digital and tech transitions**. Yet, mechanisms to ensure that retail investors can commit to EU long-term funds are complex. Because of the reasons highlighted above, they necessarily require consideration both by the industry and by regulators. Action by the latter is therefore key to incentivise

¹ Although a secondary market in fund interests may exist, the terms under which an investor could sell their position on the secondary market to another investor are generally limited compared to other markets.

intermediaries and retail clients to integrate these investments in their portfolios. As we will show in this paper, the Savings & Investments Accounts can play a role in that regard.

Context: The current state of retail investment in private equity



In 2024, at least 80% of investments in private equity came from investors that are - by definition - classified as professional under the MiFID investor categorisation² and around 12% from corporates and family offices - which often qualify as professionals in practice.

Private individuals which are in general considered as retail clients only constitute around 8% of the private equity investor base.

Most of that private capital will effectively come from **sophisticated investors with (very) large amounts of capital at hand (typically committing more than €100K in a single investment).** We have long argued these investors are not similar to mass-retail clients and should be treated differently when investing in long-term funds.

Funds raised by type of investor in 2024 - Invest Europe/ EDC data

On the other hand, “direct” investment in private equity funds by smaller types of retail investors is extremely marginal and likely to remain so in the medium-term.

As hinted in the introduction, private equity firms, as long-term investors, are typically not equipped to deal with small commitments and frequent redemption requests. This is due to the typical liquidity needs of retail investors and, more broadly, investment habits that do not always account for the benefits of placing capital for long periods of time in the same assets. Small retail investors who invest in EU markets will often first consider buying and selling direct shares on stock markets or crypto assets, rather than committing part of their invested capital to long-term funds.

While there are exceptions - listed private equity firms at the larger end of the market or crowdfunding platforms at the lower end - the main access point for retail investors to the private equity asset class - and therefore their ability to truly commit their capital to EU competitiveness - is effectively **through pension and insurance wrappers** and more broadly through accounts. As pension and insurance aim to provide their trustees with long-term benefits, long-term assets are natural investments for them.

This is why **the integration of private equity assets in Savings & Investments Accounts is so crucial:** it is only through the development of pension and insurance products designed to allow some access to private asset classes that we will match the investments made in the US through capital markets. In other words, the EU’s challenge in terms of innovation financing is to **ensure EU citizens move part of their bank savings to diversified long-**

² Annex II, Section I, paragraph (2) of MiFID

term saving products that have sufficient exposures to venture, growth, private equity and infrastructure asset classes.

Features of Savings & Investments Accounts

In light of this, we support either the development:

- 1) of an EU savings account; and /or
- 2) of national accounts (as recently suggested as part of the Finance Europe initiative).

For an EU account to be attractive, it should be attached to a tax incentive that would be at least as attractive as the one applied to similar national accounts. National accounts should be build in the consideration it is only investments in European projects, and not national ones, that can best mobilise the savings to the projects that require it.

At the moment, the only country that has developed products that are effectively allowing retail investors to commit capital to productive assets is France. The “Part II” structure in Luxembourg is also an attractive model, although it does currently mostly attract capital from high-net-worth individuals.

Here are the relevant elements that should be taken into consideration when drafting accounts and products from our perspective:

Eligible assets

To start with the obvious, it is essential for unlisted equities to become eligible assets of any future savings & investments accounts - and where possible to be preferential assets.

The risk is great that some products are developed which only expose retail investors to products of limited relevance to EU competitiveness, such as shares of well-established companies, whose impact on European productivity is much less clear. This would lead to lower outcomes both for investors - as shown by the average performance of pension products in the past years - and for the EU economy as a whole. The risk of enhancing the lack of long-term equity financing in Europe for start-ups and scale-ups by directing EU citizens savings exclusively to shares and government bonds should always be assessed when designing vehicles.

The suggestion to allow ELTIFs to be eligible is commendable but there is no reason not to **allow other types of AIFMs and other types of EU voluntary products (EuVECAs in particular)**. Explicit references to the relevance of venture and growth capital would be important to force pensions and insurance preparing these wrappers to incentivise them to include these assets in their portfolios.

Geographic criteria

It is obviously necessary for future accounts, whatever their form, to support primarily EU businesses. Yet, too strict requirements will also force large fund managers, whose focus is by nature more global, to stay away from these accounts, lowering the value of these accounts and limiting their success. While most managers based in the EU invest mostly in

EU funds, as [Invest Europe data demonstrates](#), large managers typically have a more international strategy. In light of their fiduciary duty to investors to find the best deals, hard commitment limits can be difficult to manage. Our understanding is that managers are often reluctant to set up products where there is a chance they may reach the threshold, given the legal consequences, meaning that most managers not making the vast majority of their investments in the EU will likely stay away from these accounts.

This is why the best approach is not a size threshold but a commitment goal, as per the ELTIF requirements. Furthermore, and again as recognised in ELTIF recitals, some international projects may also be of value to EU citizens.

At the least, appropriate transitional measures or grandfathering clauses should be introduced to allow existing products to align with the account's eligibility criteria, where applicable. For example, private equity funds may require time to reach the stipulated threshold of 75% investment within the EEA.

Fees

Most managers who are actively owning the companies they have invested in, such as venture capital and growth funds, have a **different cost structure** that often does not fit standardised products. Managers receive a management fee of around 2% and a “carried interest”, a share of the fund profits above a hurdle rate, a mechanism to align incentives of the manager and of its investor given the length of the investment.

Recent developments in the UK and the PEPP regime have shown that requirements costs have typically prevented the inclusion of private equity funds within pension or insurance accounts, especially if the overarching priority is to create “simple” and “low-cost” products. Indeed, private equity funds are products with high performance, due to the active involvement of managers in businesses their funds support, but also higher costs.

Too much focus on creating simple products will ultimately be at the detriment of the diversity of the portfolios - which would then concentrate largely on debt and listed shares - and, most importantly, on the value added of these accounts for EU competitiveness.

If accounts are really designed with the aim to allow investment in productive assets, their structure should acknowledge from the start the specificities of certain types of long-term investments. At the same time, the industry itself will continue to find solutions to design products that, while still designed to ensure long-term investments by the manager, can recognise the needs of wrappers ultimately designed for retail clients.

Long-term holdings

While the goal of policymakers is often to allow policyholders to have as much flexibility as possible to remove their assets for their accounts, one should consider that, where underlying assets are long-term in nature, such approach bears significant costs, that are ultimately reflected in the fees paid by clients.

While acknowledging the necessity for many retail clients to be able to sell their assets quickly, EU and national lawmakers should further consider why and how imposing full

liquidity as a rule for all types of accounts - which is currently the philosophical approach taken in EU law - can act as a serious disincentive to long-term retail investment.

In that context, option should be given, for certain types of products/accounts, for managers to impose “hard locks”. This would at the same time prevent runs and reflect the long-term nature of underlying investments. This should of course then be linked to specific reporting that would make clear to investors their investments are illiquid by nature.

Recent debates on AIFMD liquidity management tools show that EU law does not yet sufficiently recognise the way “semi-liquid”/near-evergreen funds bridge the gap between liquidity needs of clients and illiquidity of underlying assets. Changes in that respect would be needed for savings and investments accounts to integrate more long-term assets.

Again, the goal here should be that more investors with a long-term horizon - which is the case of most clients in search for pension solutions, can commit more capital to productive assets of value to the EU economy.

Distribution

Member States exhibit diverse financial cultures and distribution networks, and the account framework should be flexible enough to reflect this diversity. No additional distribution rules should be imposed specifically for the accounts. Transparency requirements should apply equally to the accounts.

Ease of access

Auto-enrolment could be considered within company-based savings schemes, offering a powerful lever to mobilize long-term savings in support of European business financing. Guided investment management could also be encouraged—while remaining optional for the saver—through tailored investment profiles. In particular, younger individuals should be encouraged to invest part of their pension savings in long-term products.

In France, the Green Industry Law mandates the inclusion of specific investment options in certain product offerings. Furthermore, digital platforms and applications can play a key role in making access to wrappers and investment funds more straightforward and user-friendly.

Portability

Accounts should be easily identified for investors through a common denomination across the EU.

Tax advantages

Savings and investments accounts should always benefit from the most advantageous and straightforward tax treatment available for comparable products within the relevant Member State (“most favoured nation” clause). Alternatively, an additional dedicated tax benefit could be introduced to further enhance the account’s appeal, potentially through some EU budget mechanisms.

Care should also be taken that the tax treatment do not create obstacles to the portability of savings across eligible investment vehicles. Ensuring seamless portability is crucial to avoid fragmentation of savings into smaller, disconnected products - an outcome that could arise as individuals progress through different life stages or move across borders within the EU. Such fragmentation would undermine both the interests of savers and the broader objective of achieving scale in EU-wide financing.

Other incentives

Market participants offering wrappers or products that meet the eligibility criteria for the accounts should be permitted to do so without undergoing a formal authorization process. Responsibility for ensuring continuous compliance with the account's criteria should rest with the distributors of these products. National supervisory authorities would retain a role through ex post controls to verify adherence.

Relationship with the KID

As a standardised document, the KID is notoriously **a tool that can end up giving investors information that is either misleading and in some cases meaningless for investors in non-daily traded assets.**

The KID does not in particular give the investor very clear information on the illiquid nature of a product as some of the performance data scenarios leads the investor to believe that it could sell the product more easily than it could/should.

In the context of the Savings accounts, there should be some consideration on whether the KID is actually disincentivising clients to invest into long-term products - and whether long-term savings accounts/products would not deserve simpler/more coherent documentation.

Conclusion

- The inclusion of private equity, venture capital and infrastructure products within savings & investments account is a must if these accounts are to best support EU competitiveness
- For this to happen, it is crucial that parameters of these accounts acknowledge specificities of long-term investments, not least fees structures, their long-term horizon and the type of reporting associated to these products. Tax will also play a key role.
- Ultimately, **the risk is great that by trying to make savings accounts too simple their value would remain low for both citizens and the EU economy:** ambition should rather be to replicate success stories, in particular the French life-insurance model
- Mobilising EU retail savings for EU innovation ultimately requires a change of mindset: the creation of savings & investments accounts should open a debate on how EU financial law can attract EU citizens' savings into the most valuable products, which are often long-term and illiquid, at a time where more and more retail investors are attracted by short term, speculative assets