

# Statement on the CMU High-Level Group questionnaire

**The CMU needs retail investors who trust in capital markets. This requires a comprehensive regulatory framework enabling them to make reasonable investment decisions based on a wide range of transparent products**

**Börse Stuttgart is member of the Federation of European Stock Exchanges (FESE) and supports the FESE reply to the CMU High Level Group questionnaire. Börse Stuttgart is an exchange for retail investors. Therefore, we highlight some aspects with regard to the needs of retail investors in the following.**

**The key to encourage retail investors to invest into capital markets are a wide range of transparent products**

Retail investors have different motives for participating in capital markets, ranging from retirement planning to speculation. They make investment decisions based on personal goals and experiences. In our view, retail investors need two fundamental things to trust and invest in capital markets. First, transparency of financial products. Second, a sufficient amount of instruments to allow them to implement their distinctive investment strategies.

Retail investors need the same high-quality and transparent product information all over Europe, allowing for an easy comparability of financial products. Information on financial products should offer a sufficient level of precision and depth in a standardized format. This would allow every citizen to decide which financial instruments suit his or her needs best, irrespective of borders or language barriers. Comparable information facilitates fair competition of product providers which allows retail investors to make optimal decisions.

Based on this starting position, retail investors should continue to have a wide access to different types of investment products, making their own choice. Restricting the sale of products to retail investors by supervisory authorities is only the last resort.

**Negative example of new regulation: Retail investors access to corporate bonds markets**

With MiFID II/MiFIR, the PRIIP regulation, and the new EU prospectus regulation, legislators have strengthened the regulatory framework in order to increase transparency, better protect investors, and rebuild confidence in

financial markets after the 2008 financial crisis. These measures express the hope that more retail investors can be convinced to invest in capital markets again. Börse Stuttgart's analysis, however, reveals that these measures have had the opposite effect in the corporate bond market. Nearly four-fifths of corporate bonds once tradable for retail investors and listed at Börse Stuttgart are no longer tradable. This leads to a highly problematic decrease in product diversity for retail investors.

The new regulatory conditions create false incentives for issuers and have led to retail investors being excluded from certain groups of products. Issuers of corporate bonds do not create a key information document (KID), decide on either a limited target market or no target market at all, and choose a high denomination exceeding 100,000 euros. The effect on the tradability of corporate bonds at Börse Stuttgart is that out of 9,268 bonds, retail investors can only buy 2,120 via their bank (23% of the total).

This development is extremely problematic. The decreasing opportunity for retail investors to invest directly in corporate bonds is diametrically opposed to the EU's initiative of creating a CMU. Rather than hurdles to investment being dismantled, new ones are being created. Thus, the new rule hinders retail investors from planning independently for retirement by including corporate bonds in their portfolio in light of increasing life expectancy and demographic changes. Retail investors' savings are hence not being mobilized to finance the economy. For more detailed information please refer to Börse Stuttgart's White Paper (<https://www.boerse-stuttgart.de/en/about-us/press-releases/whitepaper-tradability-corporate-bonds/>).

**The CMU should follow the guiding principle of the competent investor**

We trust citizens to act responsibly in their daily lives — we should trust them to do so in financial decisions as well. There is a broad range of channels to get access to financial products and services. This includes direct access via the internet and traditional investment advice

through bank branches likewise. While many investors continue to seek personal advice, the increasing digitalization of financial services has created opportunities for providing individually customized solutions for all investors online.

With respect to the CMU, we emphasize that a paradigm shift away from a guiding principle of the competent investor should not be the way to develop reliable financial market regulation. Instead the CMU should be built on trust in existing regulation, institutions and the retail investor itself. Following the guiding principle, regulators and policy makers should protect investors from the abusive practices of dubious vendors or sellers. Moreover, effective measures for investors should be in place, allowing them to defend their legal interests.

### **Regulated exchanges are at the heart of a functioning financial system, representing the best meeting point for buyers and sellers**

MiFID II is a recent example to show the effort of a regulatory framework that unites different countries and jurisdictions all over Europe. Even if it is not perfect today and adjustments are needed, it is the best way to unite financial markets in Europe. Exchanges offer efficient and secure platforms to bring buyers and sellers together, with their high transparency standards and pronounced oversight mechanisms. They are the obvious choice for companies to raise capital and for investors to invest securely and efficiently in innovative companies. Börse Stuttgart places great emphasis on transparency and security. An independent market surveillance office oversees trade and transactions at the exchange, to ensure these distinctive standards.

The growing importance of dark pools weakens the economic function of traditional exchanges. Today, different methods of price determination are used on a multitude of platforms. This reduces the informativeness of the prices established at regulated exchanges and leads to varying prices across trading and execution venues — presumably often to retail investors' detriment.

The aim of the CMU needs to be a "level playing field" in securities trading that sets the same conditions for all execution venues. A lighter regulatory burden for some platforms leads to unfair competition, weakens transparency, and compromises investor protection. A holistic approach is needed to grant equal chances within financial markets. The guiding principle for regulation to facilitate trading on regulated markets thereby decreasing the amounts of transactions conducted over the counter (OTC) must be emphasized increasingly. Only then exchanges can provide the optimal environment to bring investors together and thus continue to support innovative and sustainable business ventures.

## **About Börse Stuttgart**

Founded in 1861 in the very heart of Stuttgart, the Stuttgart stock exchange contributes decisively to the advancement of Stuttgart as a financial hub. The exchange has from the outset acted to source financing for new technologies and products, originally during the Industrial Revolution. After 1945 as a regional securities exchange Börse Stuttgart played a key role in the resurgence of business and industry in southwest Germany. And since 2008 Börse Stuttgart has increasingly been active outside the country, for example in the Scandinavian market. Today it is the leading trading floor in Germany, is the German market leader for exchange-traded corporate bonds – and the European market leader for securitized derivatives. With its focus on retail investors and a clear digitization strategy, it faces the ongoing developments on capital markets.

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