BSW BUNDESVERBAND FÜR STRUKTURIERTE WERTPAPIERE

BSW Response to the Call for Evidence: Recommendation on Savings and Investment accounts

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The German Structured Securities Association (Bundesverband für strukturierte Wertpapiere, BSW) welcomes the opportunity to respond to the European Commission's call for evidence for a recommendation on Savings and Investment accounts.

BSW supports the EU Commission's initiative to improve the existing securities services regulatory framework to attract more retail investors to invest their savings in the EU capital market. Currently, a large proportion of EU citizens' savings are either not invested in securities at all or invested in securities of non-EU countries. It is important to ensure that EU companies can be provided with the capital they urgently need for their transformation, and, simultaneously, that investors can generate long-term returns on their savings enabling them to build up wealth for their retirement.

As proven in some Member States, e.g. Sweden, Saving and Investment accounts can have a tremendous impact on boosted investment activities of retail investors. Therefore, BSW supports the European Commission's initiative to issue a recommendation on Savings and Investment accounts to the Member States. To be successfully implemented, the following criteria should be met by such accounts:

Access to wide range of products

Like in Sweden, Saving and Investment accounts should offer the possibility to invest in a wide range of products to be attractive for retail investors. Each retail investor has its own individual needs and investment strategies. In order to be able to suit these, it is of great importance that a variety of products are accessible through the account.

Furthermore, there should be a level playing field of financial instruments to provide retail investors a wide range of investment opportunities. Equities, funds as well as debt and structured securities allow diversified investments in line with investors' goals and risk profiles as well as the adaption to market developments and the investor's stage of life.

Especially with an approaching withdrawal phase, asset preservation and protection become more important than growth opportunities associated with the risks related to wealth accumulation. Structured securities can make a meaningful contribution to this. They complement retail investors' portfolios and can provide solid return potential, even if individual stocks or entire markets move sideways or even downwards. Their specific payout profiles make these products unique.

Eligibility of products

Compliance with the existing EU financial regulation (such as MiFID II, PRIIPs, and UCITS) should be the criteria for the determination of eligible products. But "non-complexity" within the meaning of MiFID should not be a

criterion for the eligibility of products. It is a myth that the MiFID category of "complex" products (including structured securities) generally involve higher risks and potential losses for retail investors.
Many financial instruments, in particular many types of structured securities, have a lower degree of risk than other financial instruments categorized as "non-complex", such as shares. The definition of "non-complex" products under the MiFID rules is only meant to capture the degree of simplicity of financial instruments but ignoring totally their inherent level of risk (leaving aside the fact that the MiFID notion of complexity does not consider all dimensions of complexity for all financial instruments). For example, shares that are classified as non-complex due to their mere participation in the capital of a company and (hopefully) generating dividends can entail enormous risks such as market developments or the success of corporate management. On the contrary, some structured securities (being a debt instrument) with an underlying index might be less risky, but are qualified as complex. Of course, there are structured securities which require more investor's knowledge and experience. If one applied the calculation method for the Summary Risk Indicator (SRI) according to the PRIIPs regulation to shares, these instruments would often classify in SRI risk classes 4 and higher according to BSW research.
Instruments compliant with the recently launched "Finance Europe" label supported by seven countries, including France, Germany and Luxembourg and The Netherlands (aiming to channel retail savings into EEA-linked investment assets) should be eligible for Savings and Investment accounts. The two initiatives should be complementary to support the strategy of the Savings and Investment Union.

Easy access

Retail investors should have easy access to capital markets. Both, products acquired via investment advice, and execution-only, should be eligible for Savings and Investment accounts as well as products acquired via commission- and fee-based advice.
Furthermore, Savings and Investment accounts should be easily accessible. Retail investors should have the possibility to choose between various providers offering such tools. The availability of reasonable offers, convenient opening and access procedures as well as a competition driven lowcost or free of charge fee structure for Savings and Investment accounts would boost retail investors' interest in such type of accounts.
In our view, costs are key. In this regard, we want to emphasize that payment for order flow (PFOF) ban seems to be a result of missing careful evaluation with massive negative consequences for retail investors. In 2022, the German supervisory authority BaFin concluded in its study that for smaller order volumes, in particular, the execution of retail originating orders on PFOF trading venues was predominantly beneficial and transaction costs were better (read lower) than on the reference markets. Investors who were able to trade for one euro or even free of charge (without having to accept a lower quality of execution of their orders) made increased use of these options, not least because they were able to increase their returns in this way. Nevertheless, the PFOF ban was introduced in March 2024 with a far-reaching undesirable impact on the retail market landscape. The PFOF ban is contradictory to the EU Commission's objective of providing easy and affordable access to capital markets. Therefore, the PFOF ban should be lifted urgently and swiftly.

Access through digital means

Digital solutions are of great importance for a success of Savings and Investment accounts. Low transaction costs are crucial for a lot of retail investors. Digital solutions are often offered free of charge or with low costs to retail investors. This aspect makes digital solutions so attractive to retail investors.
In Germany, for example, the number of securities accounts has fluctuated constantly between 30 and 35 million over the last 20 years. During the ECB's low-interest phase, which has lasted longer than ten years and has been accompanied by rising stock market prices and a lack of yield alternatives, the total number of securities accounts has not risen significantly. Though, the number of securities accounts at online banks and neo-brokers has increased sharply in recent years. Based on the survey of our online brokerage members, we estimate that there are currently around 12 million securities accounts in Germany.

Easy and affordable portability

BSW supports the introduction of a harmonised portability mechanism for Savings and Investment accounts. Savings and Investment accounts should be easily portable to other providers, ideally at a competition driven low-cost level for retail investors. Retail investors should be able to transfer their account, including any structured securities held therein, to another provider without triggering excessive administrative hurdles or tax consequences.

Cross-border offering within the EU

Savings and Investment accounts should be able to be "passported" across Member States to foster capital markets integration and investor mobility. This would allow authorised financial institutions to provide Savings and investment accounts to residents in other Member States, subject to compliance with home-country regulatory standards.
A hurdle for cross-border offerings of Savings and investment accounts could be the non-harmonized tax rules within the EU. For example, in the area of structured securities, some products are offered in one Member State as debt securities and in another Member State in an insurance wrapper, even though they are economically equivalent.

Tax simplification and advantages

Tax incentives are key to the success of Savings and Investment accounts. Being aware of the limited EU's legislative power in the tax area and that the taxation of capital is often embedded in the national taxation regimes, harmonized taxation standards for Savings and Investment accounts would be beneficial, also regarding a cross-border offering.
For example, the strategy of the national taxation of pension products pursued under the pan-European Personal Pension Product (PEPP) regime, does not seem be successful, given the low number of registered PEPPs and providers.

Other incentives or encouragement to open Savings and Investment accounts

Retail investors should have the possibility to choose between various providers offering Savings and investment accounts. Therefore, the regulatory, technical and administrative requirements for providers of Savings and Investment accounts should not be disproportionate to comply with.

Contact
Juliane Holl
Senior Legal Counsel Sustainable Finance & Capital Markets
+49 69 244 3303 70
holl@derbsw.de

Frankfurt Office
Feldbergstr. 38
60323 Frankfurt am Main
Germany