

Association position on capital market development

JUNE, 2018

Currently the capital market sector is a significant priority on the EU agenda. This is demonstrated by the [European Commission's Action Plan on Building a Capital Markets Union](#), which was initially adopted in September 2015 and further reviewed and updated in June 2017 and March 2018. The objectives of the Action Plan are to provide new sources of funding for businesses (especially for small and medium-sized enterprises), assist banks in increasing their lending capacity, support investment in infrastructure and sustainability, promote the issuing and listing of securities on the stock exchange, offer more investment opportunities for private and institutional investors, and reduce obstacles to the building of a capital markets union.

Several of the objectives laid out in the Action Plan have also been adopted in the [Latvian Financial Sector Development Plan 2017-2019](#), which proposes the following priorities in regard to capital market development:

- Increase the number of companies that use equity instruments to attract financing
- Develop equity instruments to expand financing and investment opportunities
- Increase the activity of private and institutional investors in the local market

Each of the aforementioned priorities has several objectives. The association particularly appreciates the following priorities and objectives **(and makes a few practical suggestions below)**:

1. Develop tools for the expansion of investment opportunities for Latvian state-funded pension investments **(with a focus on alternative investment funds, debt securities, and public-private partnerships)**
2. Develop and explain to the public a clear strategy and plan for increasing the share of private equity in state-owned assets, as well as attracting additional funding to the capital market **(with initial focus on debt securities, but not excluding listing, in part or in full, of certain corporations on the stock exchange)**
3. To promote the availability of information to companies about the possibilities of attracting financing in the capital market and to establish a long-term support programme that would facilitate and extend access to funding for small and medium-sized companies through the listing of shares and/or debt securities on the stock exchange **(focusing on appropriate target audiences both on the supply and the demand sides; and on the importance of good corporate governance)**.



The association also welcomes the review of regulation with regards to state-backed securities and the removal of obstacles to the development of securitization. The association proposes additionally distinguishing as priorities the issues of corporate governance and sustainable financing systems and financing for growth, as is stated in the March 8, 2018 Action Plan on Financing Sustainable Growth issued by the European Commission. Furthermore, taking into account the November 6, 2017 announcement on the creation of a pan-Baltic capital market, the association calls for a conceptual assessment of the establishment of a unified supervisory authority for the Baltic capital market.

Recognising the importance of both state-funded and private voluntary pension schemes in the development of the Latvian capital market, the association once again expresses support for the development of tools for expanding investment opportunities for Latvian state-funded pension investments, and in addition offers recommendations on ensuring the convenient, sustainable and transparent

administration of state-funded and private pensions for clients.

To encourage pension savings, the association proposes incentives that would support both the employer and the employee: the automatic enrolment of employees – with the right to opt out – to third-pillar pension schemes, measures to incentivise employers' contributions to third-pillar pension schemes (e.g. collective agreements, tax incentives), inheritance of second-pillar pension contributions opportunities for individuals to regularly and conveniently access comprehensive information about their pension savings (visibility of savings), the effective exchange of data with state registers, full use of the opportunities created by PSD2, reduction of the informal economy (establishment of non-cash payments as the default type of payment for salaries, promotion of financial literacy, combating corruption).



1. VISIBILITY OF PENSIONS SAVINGS INFORMATION ABOUT PENSION CONTRIBUTIONS

1. Availability of information about third-pillar pension on latvija.lv
2. User-friendly design solutions for latvija.lv
3. "API by design" in new systems in state IS administration. Agreement on technological standards for new IS.

2. INHERITANCE OF PENSION CONTRIBUTIONS

1. Inheritance of second-pillar pension contributions – a fundamental principle of the system
2. Financial literacy – making informed choices about pension contributions
3. Unintended redistribution and social justice (OECD, 2018).

3. DATA TRANSFER FROM STATE REGISTERS TO CONCERNED THIRD PARTIES. FULL USE OF PSD2 OPPORTUNITIES WITHIN THE FRAMEWORK SPECIFIED BY THE GDPR

1. How will PSD2 impact the choices of state institutions who are significant holders of data? How can the culture of cooperation with developers of data-driven services be strengthened?
2. The concept of a data-driven nation (2017). Implementation linked with pensions, enactment of PSD2
3. Impact of the GDPR. Data belongs to a person, not to a manager nor an administrator. The individual has the right to decide where and whether their information is displayed. Is the state obliged to develop a solution?

4. TAX PAYMENT DISCIPLINE. THE TAX SYSTEM. UNDERSTANDING OF LONG-TERM SIGNIFICANCE. SOCIAL INEQUALITY.

1. Employers' social responsibility:
 - Entering into industry- and region-wide collective agreements
 - Payment of taxes based on the full remuneration amount
 - Section 70 of the Labour Law – disbursement of salaries primarily as non-cash payments (reduction of the informal economy)
 - Contribution to third-pillar pension schemes initiated by employer
2. Employees:
 - Income tax returns – investment in pension contributions (third-pillar pension schemes)
 - Financial literacy – pension as an investment

ENSURING FOR CLIENTS THE CONVENIENT, SUSTAINABLE AND TRANSPARENT ADMINISTRATION OF STATE- FUNDED AND PRIVATE PENSIONS

