

CALL FOR EVIDENCE RESPONSE

Brussels, 30 May 2022

EUROPEAN COMMISSION CALL FOR EVIDENCE ON RETAIL INVESTMENT – NEW PACKAGE OF MEASURES TO INCREASE CONSUMER PARTICIPATION IN CAPITAL MARKETS

EFAMA wholeheartedly supports a retail investment strategy that gives EU citizens the necessary tools and the confidence to put their savings to work by investing in capital markets.

In our view, the patchwork of rules currently governing retail investor participation is either misaligned or tends to focus too narrowly on investor protection and on the risks associated with investing. To offset the phenomena of European consumers losing money by keeping their money in bank accounts, there is an urgent need to focus on the benefits of investing.

A successful retail investment strategy would also need to integrate the following recommendations:

- **Easy access to financial advice for retail investors** is essential to ensure that retail clients invest in financial instruments that are suited to their individual needs and preferences. In this regard, we would not support a radical approach, i.e., an outright ban on commission-based advice, which would be incompatible with the preferences and characteristics of retail investors and make it harder for less affluent citizens to access much-needed financial advice, thereby contradicting the CMU objective of increasing retail participation in capital markets. Given that each model (fee-based and commission-based) may be the best option for different investors, it seems only reasonable that the ideal compensation structure for investors should allow both systems to co-exist.
- **Early education of EU citizens to increase their financial literacy** and foster a better understanding of capital markets. Higher literacy will ensure that basic concepts are more easily understood by retail investors than is currently the case. EFAMA believes the European Commission should play a coordinating role and bring together existing best practices of Member States.
- **Aligning financial disclosures across various regimes**, providing meaningful – rather than conflicting – information. We particularly note that investor protection rules are often misaligned, particularly between MiFID and IDD, and that the mismatch between MiFID II and PRIIPs rules requires the production of conflicting cost figures, unnecessarily confusing retail investors. Beyond cost information other inconsistencies remain to be addressed, e.g., on risk and performance information. Furthermore, we do find that certain limitations imposed by this framework may hinder retail investor participation in capital markets, such as marketing rules and certain risk warnings. Digital disclosures can provide a more tailored experience and enable well-informed investment

decisions while avoiding information overkill. Finally, the current ESG-related disclosures must be enhanced to provide clarity and simplicity for retail investors.

- **A PRIIP KID that focuses on information relevant for each type of investment product**, as each type of investment product provides a different value proposition and thus requires different disclosures. Indeed, the PRIIP KID's fundamental problems stem from its conflicting objectives of providing at the same time clear, fair and not misleading information and comparability between widely different types of investment products. A loss in theoretical comparability will be more than offset by improved explanations of the fundamentals for each type of investment product and more meaningful information.

EFAMA also considers it vital for the Commission to invest more time and resources into proper consumer testing of policy options with retail investors before submitting legislative proposals to the EU co-legislators. This should ensure that the proposed changes create tangible incentives and clear benefits for retail investors, the financial industry and the EU as a whole.



ABOUT EFAMA

EFAMA, the voice of the European investment management industry, represents 27 member associations, 59 corporate members and 25 associate members. At end Q4 2021, total net assets of European investment funds reached EUR 21.9 trillion. These assets were managed by more than 35,000 UCITS (Undertakings for Collective Investments in Transferable Securities) and more than 30,000 AIFs (Alternative Investment Funds). At the end of Q3 2021, assets managed by European asset managers as investment funds and discretionary mandates amounted to an estimated EUR 31.3 trillion.

More information is available at www.efama.org

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