EFAMA
European Fund and Asset Management Association

RETAIL INVESTMENT STRATEGY

Positive elements for European investors and ones that should be reconsidered

Why does this matter?

European citizens would greatly benefit from putting their savings into capital markets. European capital markets help businesses fund their growth and support a healthy EU economy.

17% EU household assets invested in financial securities like stocks and bonds in 2021 (Eurostat)

65% The average net return enjoyed by a typical EU fund investor after costs and inflation between 2012-2021 (ESMA)

What do EU retail investors need?

01 Financial products that prove valuable to them, that cater to individual goals and preferences. This can include financial return, income generation, risk appetite, sustainability, and more.

02 Easy access to a wide variety of different investment products, utilising digital tools that simplify the process.

03 Simple and relevant documentation that is easy to access and doesn't overwhelm retail investors with an abundance of complex and inconsistent information.

04 Basic financial literacy to empower them in their decision-making and give them confidence in their financial planning.

05 Access to professional advice to help them navigate the complex array of investment options, with differing rules per country and product, and added elements like tax rules etc.

Helpful proposals in the Retail Investment Strategy

- Digital disclosure documents that take advantage of user-friendly technologies
- Alignment across investment (MiFID) and insurance (IDD) products for consistency
- Initiatives to improve financial literacy
- Rules for marketing by financial influencers
- Access to investment advice by maintaining both the commission and fee-based models
- Addressing how financial products and services provide value for money to investors

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Unhelpful proposals and what we should do instead

X **Quantitative 'value-for-money' benchmarks**

Only focuses on (undue) cost, goes too far towards market price setting, and dis-incentivises research and fund innovation

Increase transparency across the whole value chain when assessing 'value-for-money'

- quantitative and qualitative assessment by both product manufacturers and distributors, overseen by national supervisors and based on MiFID
- general principles to be agreed within the Retail Investment Strategy, further development by ESMA, EIOPA and national supervisors based on market analysis

X **'Best interest' test**

Focuses solely on cost, and overlaps with MiFID suitability rules, creating usability issues for investors for limited benefit

Maintain the quality enhancement test and extend it to insurance products in IDD

- improves quality for investors across investment products, without narrow focus on cost

X **Ban commission for execution-only trades**

Could limit access to digital platforms and discourage investors who don't want to pay upfront fees to distributors

Apply quality enhancement test to execution-only services, not a commission ban

- ensures commissions are improving investor services without limiting access to these services

X **Rushed timelines**

The cumulative effect of these significant market changes remains unknown, and a review after 3 years does not allow enough time to gather sufficient evidence for smart policy

Set implementation deadline 18 months after essential technical standards are developed by ESMA

- avoids regulatory uncertainty and ensures clear and proper implementation

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How can we improve investor disclosures?

A suitability-light assessment shortens and simplifies the process for investors

Should be an option for sale of highly regulated products like UCITS and AIFs, regardless of distributor

Should not be limited to independent advisors, to avoid discriminating against retail investors who choose commission-based advice

Avoid lengthy technical disclosures to retail investors whenever possible

This will help make the investment journey easier and less intimidating

Avoid repetitive dashboards

The existing PRIIPs KID document is only 3 pages long, adding a "product at a glance" dashboard is repetitive and does not add value

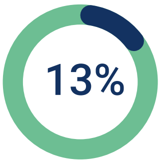
Add clear and consistent sustainability information

A reference to the existing info in the SFDR Annex should be included in the PRIIPs KID

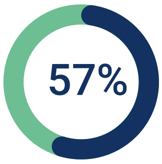
Adding a separate ESG dashboard right now could result in misalignment and confusion given that much regulatory change is still happening with SFDR

Why keeping commission-based advice is crucial

The most useful financial advice is the one you actually use!



EU households using independent financial advisers to purchase funds (EFAMA figure)



EU households using banks to purchase investment funds (EFAMA figure)

Bank based financial advisers are often remunerated through commissions, which means they charge an annual % fee based on the investment value. They can offer their services without upfront costs and are often the most affordable option for smaller investors.

Independent financial advisers often charge an upfront fee, on average around 180 euros per hour. For some investors this is their preferred option but for others it represents a significant barrier.

Maintaining both commission and fee based advisory services in Europe, gives EU citizens choice and access to financial advice, no matter the size of their investment