RETAIL INVESTMENT PACKAGE PROPOSALS

MARIE-ANNE BARBAT-LAYANI

Chair - Autorité des Marchés Financiers (AMF)

A unique opportunity to foster retail participation in capital markets

Through the retail investment strategy published in May, the EU is set to encourage consumers to invest more money in capital markets, creating the conditions for enhanced retail participation through all types of intermediation channels. It is indeed high time that retail investors were placed at the heart of the Capital Market Union.

The new set of reforms aims to address perceived shortcomings in the current EU regulatory framework for retail investment, namely that retail investors find it difficult to access relevant, comparable and easily understandable information to make informed investment choices. The reforms go a long way to harmonize and standardize investor information, namely on costs and charges. They work on the assumption that some investment products may not always offer sufficient value for money to investors and that the latter need to be given easier access to appropriate products at the lowest cost without suffering from conflicts of interest. Hence a specific focus of the Proposal on the way financial products are designed and distributed. Overall the reform should aim at lowering the cost of investing for savers.

The practice of simulating product returns taking into account all applicable costs is already observed with some firms at the product design phase and ESMA guidance already exists on that aspect. The Proposal brings it to a new level: it turns such pricing process into an integral part of the product governance requirements, thereby enshrining the concept of "Value-for-money" in the Level 1 rulebook. While the objective of ensuring that retail clients get their money worth when investing in financial products is worth pursuing, the Proposal raises some fundamental questions as regards the way products should be compared to their peers in order to identify cost outliers.

An approach whereby pan-European benchmarks of costs and performances would be developed for each family of products displaying similar features might look enticing at first glance. Yet, it also raises concerns that it may run into methodological problems, while taking years to develop in view of the new full-scale product reporting exercise that must be set up as a precondition. How peer groups will be defined and how the pricing process will filter through outliers must be considered with care. The EU needs a framework that avoids excessive complexity and misunderstanding of the concept that would thwart its appropriation by firms.

The EU initiative aims at supporting EU citizens in their investment decisions. The AMF strongly believes that financial advice must be provided in the sole interest of the client and must remain accessible to all investors, even the less wealthy, and care must be taken to ensure that access is easy throughout the country, so as not to create geographical inequalities.

The AMF has been involved in national works to promote clear and responsible advertising of financial products with a specific focus on social media and the role of online influencers. It is therefore very good news that the Proposal should clearly define investment firms' responsibility vis-à-vis the content and use of the marketing communication conveyed through social media. This is one illustration amongst others, where the proposal is commendable in its attempt to take stock of new technological developments, such as digitalization.

The topic of cross-border retail financial services has also been addressed in the Proposal, which is welcome. The possibility for investment firms and banks to provide services across the EU is a key plank of the single market for investment services. In 2022, according to ESMA, around 380 firms provided services to retail clients on a cross-border basis and approximately 7.6 million clients in the EU/EEA received investment services from firms located in other Member States. This calls for heightened scrutiny on how the home and host authorities interact when non-compliant firms cause detriments to retail investors in jurisdictions other than the one where they have established their headquarters and have been authorised.

It is indeed high time that retail investors were placed at the heart of the Capital Market Union.

In this respect, as a recent ESMA peer review clearly demonstrated, home competent authorities may sometimes lack the proper expertise and resources to sufficiently supervise how their firms comply with consumer protection rules when operating in host jurisdictions. The Proposal acknowledges that and puts forward a number of interesting, concrete tools which may facilitate cross-border supervision, and eventually foster retail investors' confidence in the single market. A more ambitious approach could also be explored, what with certain additional safeguards against regulatory forum shopping.

The AMF has so far taken an active part in the debates that led to the adoption of the draft Proposal and will follow with great interest the forthcoming negotiations in the hope that the final text will enhance retail investors' confidence to invest in financial products that correspond to their needs.

GUILLAUME BÉRARD

Advisor - Financial Services and Markets Authority, Belgium (FSMA)

Retail Investment Strategy: a subtle balance to maintain and further fine-tune

The long awaited Retail Investment Strategy (RIS) is an ambitious proposal that adopts a holistic approach in order to address different types of issues that can impact retail investors, while also drawing the lessons from years of application of MiFID and IDD, and taking into account digitalisation. By doing so, the RIS intends, amongst others, to improve retail investors' trust in capital markets. Such trust is essential to encourage people to invest, which in turn is important to help them to prepare their future and it can contribute to the financing of the green and digital transition.

It is fair to say that if most stakeholders agree with the goal of attracting retail investors on EU Capital Markets, views differ regarding the best manner to achieve this, as demonstrated by the very strong and divergent opinions expressed about the RIS, depending on whom you speak with.

As a financial services and markets supervisor, we welcome the approach adopted by the Commission and think that the RIS contains key measures that go in the right direction. Status quo is not an option if we want to enhance retail investors' trust. We need to ensure that retail investors are empowered to take more informed investment decisions, are duly protected by a coherent regulatory framework across different sectors of the capital markets and are financially well educated.

However, as always, the devil is in the details and it will only be possible to say that the RIS is effectively going in the right direction once the details will be known. The RIS can thus be seen as a first step, building on existing requirements, but it will be important to ensure that the following steps, i.e. the delegated acts and the work to be done by ESMA and EIOPA, are appropriate, in order to have a framework that works, achieves the goals pursued by the Commission and is possible to supervise as well as to enforce.

Besides that, we also need to be cautious and a number of factors need to be borne in mind to achieve a satisfactory outcome at the end of the negotiations about the RIS proposal.

Firstly, the RIS could be described as a castle of cards. Many of the proposals made are very closely interrelated and it seems important to keep the balance achieved in order to address adequately the problems identified by the Commission along the retail investor journey. Modifying substantially some of the key elements of the proposal, for example the value for money requirement, would negatively impact such balance.

Secondly, ensuring – as proposed by the Commission – that products or services with similar characteristics are regulated in the same way is critical. The understandability of the regulatory framework by retail investors is necessary to improve their trust in markets.

Finally, some key measures proposed in the RIS could benefit from some further clarifications or fine-tuning, directly in the level 1 text, to better achieve its goal and avoid negative side-effects.

Let me mention two key sets of elements to illustrate this.

The first one concerns several measures related to the assessment to be done when a product is advised to a retail investor. The best interest of the client test should be further clarified – for example the concept of product without additional features that are not necessary to the achievement of the client's investment objectives and that give rise to extra costs – as should the interaction between that test and the suitability test.

The second one is about value for money. Many stakeholders have stated that the Commission's proposal is too focused on costs. An equilibrium might need to be found among three main angles: costs and charges, risks and return, and service and quality. Investors should be able to evaluate costs, but also the investment returns and the other service benefits. The assessment of the most advantageous combination of these elements may vary from client to client, which may imply to have a more nuanced approach than what is currently proposed. In any case, if elements other than costs (such as for example the quality of the service) were to be taken into account, it would seem important to ensure that this is not done to the detriment of the issue of costs and their impact on performance. Indeed, high costs and low returns do not help to build trust. Guidelines might also be needed regarding justifications of deviations from the relevant benchmark and developing relevant benchmarks will be a complex as well as critical task.

Status quo is not an option if we want to enhance retail investors' trust.

Last but not least, as a supervisor very strongly active in the field of financial education, we welcome and support the proposal to enhance financial literacy. Indeed, providing, for example, information to help retail investors to compare costs and charges is only beneficial if such investors are sufficiently financially educated to understand the usefulness of such information and use it.

VERENA ROSS

Chair - European Securities and Markets Authority (ESMA)

Retail Investment Strategy: challenging but essential

The Retail Investment Strategy, as one of the key initiatives under the 2020 Capital Markets Union Action Plan, aspires to boost retail participation in the EU capital markets. While regulation alone cannot guarantee that more EU citizens tap into markets to mobilize their savings, it certainly can help to mitigate some of the key factors discouraging investors from engagement. Lack of trust, high costs, concerns about risks and returns, conflicts of interest, information unclarity and overload, and complexity of financial products all are areas where regulatory focus is needed.

ESMA has supported the preparation of the Strategy with several pieces of advice and our recommendations feature prominently in the final text. The first assessment of the proposal is thus positive from the ESMA perspective. We very much welcome that the needs of retail investors are now moving centre stage in building the European Capital Markets Union. Having said that, details do matter and must be carefully considered during the legislative process.

ESMA welcomes the intention to align the investor protection frameworks for insurance and investment companies. With a view of ensuring a genuine level playing field and regulatory efficiency, the asset management sector should, in our view, also be considered in these cross-sectoral harmonization efforts.

For ESMA, the priority is to ensure a secure environment for those wishing to invest. Their investment journey should be seamless and safe, irrespective whether it takes place locally or across borders, in a face-to-face interaction or virtually. In the supervisory realm, reinforcing authorities' cooperation on cross-border issues is a welcome and necessary step to prevent potential investor detriment. The proposal to establish an electronic database underpinned by reporting requirements on entities' cross-border activities will formalise data collection and sharing in this area, based on ongoing ESMA work. Importantly, the Strategy also foresees reinforced precautionary powers for host supervisors as per our advice.

ESMA also called for clarifications around authorities' ability to intervene on misleading marketing practices and our recommendation has been heard. However, the level of ambition proposed for the responsibilities of supervisors should be made equally high when it comes to the liability for misleading advertising. From this perspective, further improvements might be needed to better capture unregulated entities and individuals promoting financial instruments online.

At ESMA, we have been committed to empower retail investors to make well-informed decisions, for example by supporting availability of reliable and understandable product information.

For ESMA, the priority is to ensure a secure environment for those wishing to invest.

We therefore welcome the proposals followed our advice and aim to make full use of the digital possibilities to enhance the investors' experience as well as to improve comparability of information. While fully supporting the standardization of cost information ex-ante, we believe it is worth also exploring harmonisation of cost disclosures provided after the purchase of a financial product.

When it comes to the framework for packaged retail investment products (PRIIPs), a broad review of the regulatory framework would have been preferable to the proposed subset of targeted amendments. This should have included adapting the KID to allow for more flexibility in the use of performance scenarios and the possibility to display past performance for investment funds.

It should also be acknowledged that the Strategy proposes numerous challenging tasks for ESMA once it gets to the implementation stage. Perhaps the most demanding work is expected around the development of the 'value for money' benchmarks. While the feasibility of implementing such benchmarks in practice raises some challenges, for ESMA, the success of this mandate will depend on clear definitions, data availability, consistency among regulatory mandates and reporting regimes, as well as transparency vis-à-vis investors. The planned reporting requirements for both product manufacturers and distributors in this context are helpful. The data could prove useful for other supervisory purposes as well. For example, ESMA could use the collected data to build and feed a publicly accessible fund comparison tool.

Getting the Retail Investment Strategy right is important for Europe's investors and capital markets. To achieve this, we will all need to keep the key objectives of the strategy in mind. Ensuring a safe investor journey must be part of this effort. At ESMA, we look forward to supporting the co-legislators during their deliberations.

CYRIL ROUX

Deputy Chief Executive Officer - Groupama

Retail Investment Strategy - a cross sectoral perspective

The EU Commission has adopted on May 24, 2023 a broadranging retail investment strategy (RIS). A number of its stated objectives, such as the fair treatment of customers, ensuring their best interests are served by distributors, avoiding conflicts of interests, value for money, etc. are general principles that are not specific to retail investments.

Accordingly, the RIS can be seen as the most up-to-date template for the fair treatment of EU citizens as retail customers of goods and services. It would thus be desirable to extend the RIS principles to other retail products as well as to residential properties, where some if not all of the same issues of potential market failures, information gaps, conflicts of interest and the like might arise. This article an early attempt to extend the RIS to outlays other than retail investments ; its author welcomes further contributions to this effort.

For most households, the most significant outlay in their lifetimes is the purchase of their homes. In many EU countries, such sales are done predominantly through real estate brokers who will typically offer to the prospective buyers of property a range of homes to choose from. However, the current market structure is such that brokers will only offer properties that have been entrusted to them by sellers, and those may not always fit the best interests of prospective sellers.

Accordingly, a Residential Property Transaction Regulation modeled on RIS should be enacted, to ensure that brokers

1. run a questionnaire of the accommodation needs of their prospective clients detailing the age composition of the household, their likely place of residence, work, or study for the next ten years, the number of bedrooms and bathrooms needed on a yearly basis for the same duration, the ability of each household member to access the accommodation without an elevator (a proper carve out of RGPD for individual medical information needs to be designed to that effect) and run a model for the likelihood of divorce;
2. offer at least one simple, low-cost accommodation fulfilling the aforementioned needs under (1.), whether or not such an accommodation belongs to their current range of properties. This Regulation should also ensure that brokers;
3. advise the clients whether their accommodation needs would be better served by long term rental and provide a comprehensive choice of rental properties, if need be by teaming up with agents of the same area having a sufficiently broad choice of properties to let. When real estate markets are entering a downturn, as in 2023, real estate brokers would be mandated to point out to their clients, especially first-time buyers, that their best interest would be to postpone any purchase until such time as prices bottom out.

To ensure fair treatment of all EU retail customers, consider generalizing the RIS approach.

Turning to apparel and leather goods, especially those running in the thousands of euros, where value for money and conflicts of interest may be most prominent issues, a Consumer Protection Regulation, taking another leaf from the RIS playbook, should be considered. The establishement of a European Apparel and Luxury Goods Authority seems necessary to ensure that undue costs, conflicts of interest and value for money are properly addressed. In particular, companies would submit their pricing structures, gross and net margins and itemization of due costs (such as lavish celebrity endorsements, fashion shows on the Great Wall of China or similar places) to the said Authority, which would enforce retail prices of say, sought-after leather bags or luxury brand sneakers in a range of 5 to 10 times their production costs, in line with reasonable market practice.

Influencers (including those operating from non-EU locations) would be requested to go through an extensive training program vetted by the Authority ensuring that their TikTok advice would be given with only the interests of the prospective buyers at heart. And more generally, shop attendants at brick-and-mortar stores would be refrained from earning any sort of volume or value commissions, which could skew their advice to shoppers in favor of more extensive items or – heaven forbid-, be tempted to vouch that the latest fashion flatters the prospective wearer when disinterested advice would very much indicate the contrary.

Of course, all clothing shops, not excluding purported luxury shops, would be requested to display prominently and offer sensible patent leather shoes, plain sneakers, and simple apparel, affordable to all EU citizens, at any point of sale, as a readily available value for money alternative to their branded offerings.

This paper only skims the surface of the extension of the RIS principles to purchases other than retail investments. But there is no reason to withhold the benefits of the RIS to the purchasers of properties, clothing or durable goods, when it stands to reason that a fair treatment of EU retail consumers would be achieved by such a desirable extension.

TOBIAS PROSS

Chief Executive Officer - Allianz Global Investors GmbH

Why not take measures to increase retail participation?

The overall objective of the EU's Retail Investment Strategy ("RIS") is to grow retail investor ("investors") participation in capital markets.

However, the key themes of the RIS seem imbalanced and do not address the required conditions to meet this goal. Emphasizing a low-cost sales environment will not per se attract new investors. The measures will mainly benefit investors already invested or open to invest in capital markets.

Costs are certainly important. However, when comparing product features and costs, only a like-for-like comparison is a fair comparison. Claiming that execution only purchased funds are cheaper than funds being purchased following investment advice is misleading. Advice always comes at a cost, either paid by inducements or upfront by the client directly. The cost of advice paid directly by the client must be part of the calculation of costs and returns of execution only purchased funds for a fair comparison against funds that are bought following investment advice. Further, an inducement ban will not increase retail participation but rather shift investors from advised to execution only sales channels (see UK & the Netherlands). Considering that only about 20% of EU investors feel comfortable in making investment decisions (according to the Kantar study), policy action should focus first on financial education before creating an environment that requires confidence and investment skills from investors. Without sufficient financial knowledge or (affordable) advice, investors may lean towards influencers or other untrained advisors – ultimately a recipe for creating unintended risks, increased mis-selling and deteriorating trust in capital markets.

How do we achieve more retail participation?

Instead of placing the emphasis on costs, the RIS should extend its focus to the demands and needs of investors and address issues that currently withhold investors from investing. It should constructively nudge investors in capital markets and create an investment environment that is fair, transparent, and understandable – in short, one to trust in. The number of investors without any investments in financial products (excl. deposits) can be as high as 70% (depending on EU country). It is therefore essential that regulation fosters an environment that reaches investors who currently do not invest and demonstrates to them why they should invest (e.g. inflation, pension provision).

Key themes of the RIS seem imbalanced and do not address the required conditions to meet its goal.

Financial literacy could serve as the basis to achieve this goal. It is critical for the success of the Capital Markets Union that investors overcome their fear and mistrust in capital markets. Early financial education with use-cases is important to foster financial inclusion. The EU should create an environment that allows investors to reflect on their changing personal situation, associated needs and promotes an understanding of investing as a solution. In addition to introducing financial education to school programs, online platforms and social media, the metaverse will become important in reaching and educating future investors.

In combination with gamification, a powerful information toolset could be created to familiarize investors with the basic concepts of investing and financial instruments. Higher financial literacy will enable investors to assess the value proposition, associated risks and costs of financial products – all in all leading to better investment decisions, which would make current regulatory initiatives towards price controlling obsolete.

Gaining trust in capital markets should be supported by pension and tax systems that reward retirement savings. A private pension pillar that fosters participation in capital markets with certain tax levies would send the right signal and nudge for investors. The demographic challenges in the EU (e.g. baby boomer generation entering retirement age over the next 5-20 years, growing life expectancy) combined with low pension rates (standard pensioners receive on avg. 66% of pre-retirement earnings at EU level, 53% in Germany) requires action and changes to current pension systems. In Germany, we seem to be taking first steps in the right direction by introducing the "*Aktienrente*" (literally: equity-pensions), signaling that long-term investments in capital markets are positively contributing to returns and are supported by the state.

Overall, the focus of the RIS should be to achieve financial inclusion of investors via financial literacy and motivate member states to lead by example in adopting pension systems that support investing in capital markets. The application of digital tools and communication channels in connection with the move to digital by default and a simplification of disclosure documents will be crucial for attracting new investors.

Risks and returns of financial products as well as qualitative characteristics such as ESG should be considered and addressed in the advice process to provide customers with the most adequate products for their needs.

CHRISTIAN STAUB

Managing Director Europe - Fidelity International

The right retail policy mix will empower as well as protect investors

In assessing the question 'Has the Retail Investment Package set out the key measures needed to increase retail investor participation?' it is important to remember Commissioner McGuiness' own identification of three key goals to this strategy. Effective policy must, she said:

- **Empower** investors to make appropriate decisions;
- **Ensure** investors are appropriately protected; and
- **Enhance** investors' trust and confidence in financial services firms and the capittal market participation they provide.

These are excellent ambitions, and yet the current package risks delivering only on point two of the Commissioner's plan.

The Retail Investment Strategy (RIS) provides the platform to raise the bar on retail financial framework which in turn can support increased investor participation AND investor protection in European capital markets. While value for money proposals will certainly ensure higher levels of investor protection, they are centrally focused and risk enhancing trust in ESMA more than in the financial services firms and markets with which investors interact. It also risks missing the opportunity to improve the way information about investment products is provided to retail investors-making it more meaningful and standardised through the adaptation of disclosure rules to the digital age and to investors' growing sustainability preferences.

More worrying is the fact that supervisory intervention is currently focused on cost not value. In pursuit of the 10% of funds that cost the most, policy risks embedding the wrong concept of value in investor's minds from the outset, stripping out non-cost elements that we think constitute 'value' more properly conceived: performance, quality of service, economies of scale and the fund's own control over authorised fund costs.

To avoid these pitfalls, we would advocate for two key changes to the RIS' current value for money proposals. Firstly, investors would benefit from a model that encompasses all aspects of value rather than fixating just on cost, and the Commission should widen its definitions of value accordingly. Secondly, as this will require a mixture of both quantitative and qualitative value elements, we also recommend that value assessments remain in the hands of management companies and their boards.

To empower investors, retail policy must measure all aspects of value rather than focus on cost.

Many have observed that this is how value for money is measured and managed in the UK. Here the FCA's supervision is strongly driven by the dictum 'you cannot manage what you cannot measure'. But it is tempered by the understanding that fund management companies alone understand the 'management' that needs 'measuring' in the first instance. And so, while UK model definitively requires quantitative benchmarking of both fund costs and services against peers (crucially also requiring them to justify the same to the supervisor), the model ultimately blends quantitative benchmarking into the qualitatively rich ecosystem that best serves investors in terms of choice and empowerment.

To be sure, the UK model is itself underpinned by safeguards that the EU system does not possess, such as the Senior Management and Certification Regime (SM&CR) and now Consumer Duty. The Commission might therefore consider a model in which ESMA benchmarks are plugged into each management company's value assessment. This could be done potentially as a fund cost element that sits alongside the non-cost elements in order to assess proper value. Or the ESMA benchmarks provided to national supervisors for approving the fund cost benchmarking could be just one element utilised as part of a wider management company's value assessment framework?

This might be one way of recombining Commissioner McGuinness' points one and two – delivering protected and empowered investors - within the purview of the current RIS proposal all while supporting trust in fund management companies and capital markets.

The other – and we would argue more urgent – task is to widen the purview of the RIS itself as the move towards an inducement ban seems likely to continue.

Simply put, any strategy to 'exit' inducements from the advice channel will, in turn lead to investors themselves 'exiting' advice – becoming so-called advice orphans. The Commission therefore needs an equal and prior strategy to help investors 'enter' the non-advised channel if we are not to lose them to investment altogether – in effective reversal of 'retail participation'.

As hedge fund manager Eddie Lampert said: "the entrance strategy is actually more important than the exit strategy" and we urge the Commission to turn to policy designed to ease - even stimulate - retail participation via online digital access-points and platforms. The likely pause in RIS' legislative timetable should help here, as should the publication of the Commission's excellent Open Finance package. But it will require political will to bring the two together into coherent plan to better protect and empower investors now and in the future – a 'Digital Retail Investment Strategy'.

STÉPHANIE YON-COURTIN

MEP & ECON Coordinator for the Renew Europe Group - European Parliament

What place for the Retail Investment Strategy in bridging the CMU gap?

Shedding light on one of the biggest shortcomings in the European capital markets, a 2022 Eurostat study showed that only 26% Europeans have/had an investment product, compared to 90% which have/had a bank account. The status of our European capital markets has remained the same for many years: highly fragmented, overbanked, underdeveloped compared to other continents and lacking incentives for retail investors to invest. Those inefficiencies go well above the question of inadequate or burdensome legislation, as they are also rooted in cultural and behavioural aspects.

So, what is the answer to increase retail participation in our markets? For change to happen, we need a cross-cutting approach, touching upon many areas while using a "retail investor lens" (e.g., taxation, consumer protection, reporting). There is no one-off solution. This exercise is a never-ending process, that needs to evolve along with retail investors' behaviour using a step-by-step approach.

The Retail Investment Strategy (RIS), for which I am rapporteur in the European Parliament, is a great step to start this journey. If truly ambitious, this text not only has the potential to bridge the gap to further achieve the Capital Markets Union, but would also lay the ground for further evolution.

How can the RIS develop the EU capital markets?

On paper, all citizens can be investors but when we look at the numbers, still 70% of consumers in the EU have never invested in financial products. Europe needs to develop its investment culture. Here we need to acknowledge the central role of financial advice, still embedded in many territories, while taking into account new trends, as digitalisation, that form the next generation of investors.

Financial intermediaries still remain the main source of information for citizens when they make an investment. With this proposal, we not only need to guarantee financial inclusion whilst tackling current deficiencies around financial advice, but also ensure financial education for both financial intermediaries and European citizens. Increasing the quality of advice goes hand in hand with ensuring professionals' financial education.

We need to acknowledge the role of financial advice, taking into account new trends as digitalization.

Looking at major issues addressed by the RIS, digitalisation will play a big part in achieving them. Digital means of financing are engaging new generations to invest and we need to properly frame this new environment to guarantee its safety and attractivity. We cannot let an event such as the FTX collapse repeat itself. This is particularly relevant with the increasing rise of "Finfluencers". Consumers rely more and more on social media and influencers instead of traditional financial advice. Younger generations do no longer go to meet their financial adviser at the bank, but instead watch YouTube, Instagram, Facebook, etc. While online marketing through influencers is becoming a growing part of investment firms marketing strategies, consumers are increasingly exposed to misleading marketing practices on social media without adequate transparency, liability and protection. Finfluencers may not have appropriate knowledge on the financial products they are selling to their wide and young audience. This is why those practices cannot be treated, for instance, as selling shampoo bottles on a TV commercial. Investment firms must be liable for any marketing done on their behalf.

The RIS raises many other meaningful questions: How do we better assess the quality of a financial product? How to ensure that the consumer has all the information at hand while not being overloaded? Based on what criteria will we ensure that financial intermediaries act in the best interest of consumers? How can we use taxation to our advantage to increase retail participation?

The essence of the text is undoubtedly very ambitious, but many questions remain open. It will be up to the colegislators in the upcoming months to ensure the clarity, readability, and efficiency of this framework.

How can the RIS be the stepping stone for further developments?

The RIS should be the steeping stone of tomorrow's Capital Markets Union, when it comes to the green and digital transition and supporting financial literacy. Its success will be a collective responsibility. Developing financial literacy, for instance, will only be the result of EU and Member States' cooperation.

Implementation will be crucial to see how the effects of the RIS materialise on the markets. Only then, having those elements at hand, should we make further decisions on adapting this framework.

Our political determination will be key to uphold the ambition of this text. I know that the European Parliament will seize this opportunity to engage the next generation of investors in our capital markets. But this ambition must be carried on by all European decision makers, Commission and Council included, as failure is not an option.

ALEKSANDRA MACZYNSKA

Acting Managing Director - Better Finance

No increased retail investor participation without improved consumer outcomes

Better Finance, the European Federation of Investors and Financial Services Users, welcomed the publication of the Retail Investment Strategy (RIS), as a once in a lifetime opportunity to create a capital markets union that really works for people. The legislative proposal, despite some shortcomings (such as a lack of ban of inducements or failing to tackle serious disclosure issues in the Key Information Document), incorporates certain positive advancements.

What is the ultimate goal of consumers when they invest in capital markets, when they buy packaged retail investment products or insurance-based investment products? Usually, consumers seek to invest long-term, and entrust their money in professional hands to generate decent returns, in order to finance certain projects in the future. Those projects vary from buying a house, paying for the education of their children, or, very simply, avoiding the frightful outlook of ending their days in poverty in a context of ever-decreasing support from public pension schemes. Retail investors buying those products have a long-term outlook, they care about how much these products will cost and yield in twenty, thirty, forty years.

This long-term outlook is the very reason why trust as well as cost and performance of retail investment products are the core issues that need to be addressed if we want to increase retail investors' participation. And we need first and foremost access to good quality independent advice and value for money, as needless to say without "a fairer consumer experience" we will not manage to boost retail investor participation. In that context, the proposal that the European Commission has put forward may have flaws, but so far I have not heard from the stakeholders criticising it any better suggestions aimed at improving outcomes for individual investors.

First, consumer need access to independent advice delivered in their best interest.

Being an individual investor is not a full-time job. Therefore, consumers should have access to competent financial advisors whose advice is beyond doubt in the interest of their client, the retail investor. Advisors should assess and recommend products based on their quality – that is, their capacity to meet the investor's specific objectives and needs without charging undue cost and in line with the risk profile – and not based on how much money they will make from the sales. Investors want advice, not a sales pitch.

The EC proposal may have flaws, but I have not heard better suggestions to improve consumer outcomes.

Retail investors need to regain the trust in capital markets and their advisors but in reality according to a recent Eurobarometer survey, only 38% of consumers are confident that the investment advice they receive from financial intermediaries "is primarily in their best interest". This has to change if we want consumers to invest. Therefore, Better Finance supported the idea that ban on inducements would resolve the issue of conflicts of interest. We welcomed the proposals to extend the ban on inducements to insurance-based investment products ("IBIPs"), and to ban inducements on "execution-only" (non-advised) sales of investment products, two measures that we strongly advocated for as we hope that they will improve investors' access to simple cost-efficient products.

Second, there is a dire need for a solid Value for Money framework to ensure that only products that do enable consumers to meet their investment objectives at a fair price are marketed to retail investors.

Are the services and products investors get worth the money they pay for them? Too often they are not. Therefore, Value for Money should be designed as a fundamental safeguard for investor protection and build on the already existing safeguards; rules must lead to significant improvements in terms of the cost-efficiency of the products offered to consumers.

Performance is crucial. As in Better Finance's annual research on the real returns of the long-term pension and investments products, the research by Good Value for Money for the French market or the recent research of the Regensburg University it is clear that being advised by conflicted parties did not provide good outcomes for consumers in the past.

And again in line with Better Finance's independent research carried out in cooperation with academics: cost is equally important. Therefore, I don't agree with critical voices claiming that the RIS is overly cost-focused. Our 2019 findings on the correlation between cost and performance of EU Equity Retail UCITS were clear: "the more you pay, the less you are likely to get". Fees are nearly single-handedly to blame for the disappointing returns of many actively managed funds and the compound effect of charges over an investor's lifetime can be catastrophic. In fact, many including professor John Kay point to the fact that "the least risky method of improving investment returns is to pay less to the financial services industry".

One thing is clear - we cannot continue with the status quo because so far it has served individual investors very poorly.