
Press release

AFME says “value for money” benchmark needs refinement for EU Retail Investor Strategy to deliver

29 August 2023

The Association for Financial Markets in Europe (AFME) has submitted its response to the EU Commission “Have your say” consultation on the EU Retail Investment Strategy, raising member concerns about the overly prescriptive nature of the proposals.

Adam Farkas, CEO of the Association for Financial Markets in Europe (AFME) commented: *“AFME strongly supports the Commission’s objective of making the distribution of securities to European retail investors more efficient. We also support the Commission’s ambition to significantly raise the percentage of European retail investors’ direct and indirect participation in EU capital markets.*

However, in view of the fact that a significant number of investment products distributed to retail investors are sourced and manufactured by wholesale banks, asset managers and insurers, AFME is concerned by the many ways that the Retail Investment Strategy (RIS) could impact wholesale capital markets, as well as the availability of investment product for retail investors, reducing rather than enhancing their choice. AFME believes that alternative approaches, including those used in other jurisdictions, should continue to be carefully explored based on their success to ensure the effectiveness of the proposals.”

In particular, AFME notes the following 4 areas of the proposals:

1. **Value for Money**

AFME supports the Commission’s ambition to provide fair value to retail investors. However, the proposed prescriptive benchmark-based approach is problematic in terms of achieving consistency and accuracy for any such benchmark to give a fair indication of cost and/or performance. The value of a product/investment to a particular investor depends on many factors, such as quality of service or sustainability features, which is inherently subjective and differs between clients. Additionally, this heavily quantitative-based approach could result in some investors receiving products that do not offer value for money because the benchmark overlooks other relevant factors.

AFME believes it would be more effective to either pursue a more qualitative, outcomes-based approach or an approach facilitating flexibility between quantitative and qualitative factors.

2. **Best Interest**

AFME does not see a compelling rationale to revise existing Best Interest requirements in the MiFID inducements rules. The Commission’s proposals on Best Interest impose a significant burden on firms and seem to be duplicative of the value for money proposals.

The new criteria takes an approach towards investment advice that is mostly focused on costs, and does not consider other key parameters that are important in the context of investment advice, such as best interests, since many products with higher fees could potentially also deliver a better overall return to particular investors best suited for those types of products.

This approach risks “downgrading” the value of the investment advice as a whole. The new criteria may also result in advisers steering retail clients only towards the lowest cost products (e.g. sovereign bonds, certain categories of shares, or passive investment funds), which may not always lead to best investment results for retail clients who may be looking for best overall returns over the long term.

3. Inducements

It is helpful that the Commission has not applied the inducements ban to advised distribution models. However, with respect to the inducements ban for non-advised services pertaining to packaged retail and insurance-based investment products (PRIIPs), the scope and rules require further adjustments to ensure that they do not cast the net wider than is required to meet the Commission’s stated objective in this area.

In addition, AFME is of the view that the post RIS-review should occur five years (not three years) after the RIS amendments have become fully operational. The review should also look at the whole package (rather than the inducement changes in isolation). AFME also suggests clear criteria should be set for the review, including explaining how it will measure the effectiveness of the revised inducement provisions in managing conflicts of interest and considering other factors, such as consumer outcomes and the supply of products for different investor requirements.

4. Client Categorisation

AFME welcomes measures to enable more sophisticated and experienced retail investors to ‘opt up’ to professional client status. This can facilitate a broader range of investment opportunities to a wider range of clients which may result, overall, in an increase of capital being made available to issuers in EU capital markets. To achieve this, the standards which will specify the ‘opt up’ criteria must be clearer in scope and on the evidence required to demonstrate financial expertise.

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Notes:

AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information, please visit the AFME website: www.afme.eu. Follow us on Twitter [@AFME_EU](https://twitter.com/AFME_EU)