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## AFME consultation response

### Targeted consultation on options to enhance the suitability and appropriateness assessments

Date: 21<sup>st</sup> March 2022

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#### Introductory remarks

The Association for Financial Markets in Europe (AFME) is grateful for the opportunity to respond to the Commission's targeted consultation (the consultation) on options to enhance the suitability and appropriateness assessments.

The Commission's targeted consultation on options to enhance the suitability and appropriateness assessments proposes a fundamentally new approach and could be regarded as a complete revision of the current advice landscape. If this consultation is intended to inform EU legislative proposals on retail investment strategy (expected Q3/Q4 2022), at very minimum we call on the Commission to revise this timeline to allow for proper consideration of the proposals, including further consultation to ensure a robust and holistic approach to enhancing investor protection rules. An additional compounding factor is that the issuance of this consultation coincided with the Russian military invasion of Ukraine. Understandably, AFME members priorities and attention have been diverted elsewhere during this unfolding crisis.

AFME responded to European Commission's EU Strategy for Retail Investors consultation which closed on 3<sup>rd</sup> August 2021. In our response we noted that, with respect to the existing suitability and appropriateness assessment regime, AFME members reported that the regime already provides an appropriate degree of investor protection. In the absence of any contradictory evidence becoming apparent in the interim, or presented in this consultation on options to enhance the suitability and appropriateness assessments, our assessment remains the same. The established processes have proven themselves in practice and are received positively by customers. We are unaware of any negative feedback or criticisms from consumer advocates about the existing practice. Therefore, we do not consider the case for prioritising reforms to the suitability and appropriateness assessment regime has been made.

A wholesale revision of the suitability and appropriateness assessment regime, as proposed by this consultation, does not appear consistent with the aims explicitly expressed in the recent Capital Markets Recovery Package (the so called "quick fix") of supporting economic recovery from the COVID-19 pandemic, including via relief from certain administrative requirements on firms. Rather, this would place significant incremental administrative burdens upon investment firms, having the effect of hindering the recovery, with no evidenced enhancement in investor protection.

The product governance rules introduced by MiFID II created a fundamental shift in the way firms design and distribute financial instruments. These developments have led to a significant increase in the quantity, quality and granularity of data supporting the current suitability and appropriateness assessment for clients. Additionally, investment firms have gained much improved, data driven insights into the financial situation of individual clients. This includes the client's investment knowledge and experience and the client's wishes and objectives. For some firms, acquiring this insight demands frequent interaction with the client and significant utilisation of data and systems in order to form a properly substantiated financial overview.

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The Association for Financial Markets in Europe (AFME) is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent the leading global and European banks and other significant capital market players. We advocate for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. We aim to act as a bridge between market participants and policy makers across Europe, drawing on our strong and long-standing relationships, our technical knowledge and fact-based work.

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