Association for Financial Markets in Europe

AFME's Consultation Response

ESMA Call for evidence on the retail investor journey: understanding retail participation in capital markets

21 July 2025

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on ESMA's **Call for evidence (CfE) on the retail investor journey**. AFME is supportive of the overarching goal of enhancing retail investor participation in capital markets. However, we remain concerned about the significant regulatory burden imposed by the ongoing review of key investor protection requirements in MiFID II under the Retail Investment Strategy (RIS), which in our view will act as a barrier to effective engagement by retail investors.

Highly complex, conspicuous and granular regulatory requirements can inadvertently discourage retail participation rather than promote it. Investors may feel overwhelmed by information overload, frustrated by recurring risk warnings (which are required for *regulated* products and firms), and discouraged by the focus of disclosures on fees and risks, with no balanced reference to potential rewards.

Ultimately, investors may disengage entirely from their investment journey or move to unregulated products and firms.

With the above in mind, we welcome the European Commission's objective to simplify and reduce the regulatory burden in the financial sector as part of the wider agenda on the Savings and Investments Union (SIU), including in the context of the RIS. In this respect, ESMA has also expressed its commitment to support this objective by seeking ways to ensure that the measures applicable to market participants are proportionate.

Although this CfE is part of ESMA's broader efforts to support efficient simplification and burden reduction, there remains uncertainty about how the feedback gathered will influence the ongoing RIS negotiations or the measures proposed under the SIU. **We therefore stress the need for a more holistic approach to retail investor participation and avoid changes to the current rules in a piecemeal fashion as this could lead to inconsistencies, further complexity and implementation challenges for firms**.

In our view, it is essential to maintain a stable and predictable regulatory environment and we remain cautious about the risk of a rapidly evolving, and potentially fragmented, regulatory landscape. **We believe that targeted changes to disclosure obligations would be a proportionate and effective way to improve the current MiFID II framework**: costs and charges disclosures, suitability and appropriateness assessments, periodic reports on investments are all areas that can benefit from a more streamlined approach, as we detail in our response.

Any proposals for future changes should be carefully considered and guided by the principles of proportionality and efficiency, ensuring any change genuinely supports retail investor participation, without introducing unnecessary onuses and unintended obstacles. Rule changes should focus on the outright removal of superfluous and/or disproportionately onerous requirements. In this regard, amendments to format and templates can represent costly changes without material alleviation of the regulatory burden for firms or investors.

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No	Question
1	**What are the key reasons why many retail savers choose not to invest in capital markets and instead keep their savings in bank deposits?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
AFME will not respond to this question.	

No	Question
2a	**To what extent do retail investors find investment products too complex or difficult to understand?** *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.* • *A major barrier to investment* • *A moderate concern, but not the main factor* • *A minor issue compared to other factors* • *Not a concern at all*
Response	
AFME will not respond to this question.	

No	Question
2b	**For consumer associations: Based on your interaction with retail investors, are there particular types of investment products or product features that retail investors find especially difficult to understand?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
3	**Do past experiences with low or negative returns significantly affect retail investors' willingness to invest again?** *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.* • *Yes, negative experiences strongly discourage future investment* • *Somewhat, but other factors (e.g., trust, risk appetite) play a bigger role* • *No, past experiences with poor returns are not a major factor in investor decisions*
Response	
AFME will not respond to this question.	

No	Question
4a	**Do high fees and costs discourage retail investors from participating in capital markets?** *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.* • *Yes, fees are a major obstacle to investment* • *Somewhat, but investors consider other factors as well* • *No, fees are not a significant concern for most retail investors*
Response	
AFME will not respond to this question.	

No	Question
4b	**For consumer associations: Do retail investors raise specific concerns about investment costs and fees? If yes, which ones? (e.g., are total costs clearly known by individual investors? Are fees perceived as too high? Are they considered unclear or difficult to compare? Do investors feel they get good value compared to the cost?)** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
5a	**Have you identified a lack of trust in investment service providers as a factor influencing retail investors' reluctance to invest?** *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.* • *A major factor* • *A contributing factor, but not the main issue* • *A minor factor compared to other concerns* • *Not a factor at all*
Response	

In our view, **it is a minor factor compared to other concerns**.

The breadth and width of disclosures in the existing framework, such as in the area of costs and charges, can be a contributing factor that undermines reliability on the provision of investment services.

In many instances, disclosures heavily emphasise the risks and costs (defocusing the attention from potential profits and rewards) and, accordingly, investors may be discouraged from investing in *regulated* products offered through (*regulated*) investment firms.

Thus, investors are incentivised to choose investments in unregulated products, deviating their resources from meaningful investments in capital markets, which is unhelpful to the objective of financing of the European economy. In this regard, we recommend greater consistency in the delineation between (MiFID regulated) financial instruments and other types of assets/products.

Furthermore, as acknowledged by ESMA in a recent public statement,[1] existing practices of firms providing crypto asset services (CASPs), who are subject to different levels of disclosure requirements compared to investment firms regulated by MiFID, can give rise to investor protection risks and provide potentially misguided reassurance in relation to any unregulated products and/or services which may be offered by CASPs. In practice, some CASPs who offer both regulated (under MiCA) and unregulated services may even use their regulated status under MiCA as a marketing argument and encourage the confusion between regulated and unregulated products and services.

No	Question
5b	**For consumer associations: What specific concerns, if any, do retail investors raise about investment service providers? (e.g., do they feel they receive biased advice? Are there concerns**

[1] https://www.esma.europa.eu/sites/default/files/2025-07/ESMA35-1872330276-2329_-_MiCA_Statement_Access_to_Unregulated_Activities.pdf

	about transparency, trust, or conflicts of interest, or insufficient access to advice tailored to their needs?) *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
6	**Do retail investors feel they have adequate access to investment advice and relevant information when they encounter difficulties in understanding investment products? If not, what forms of support would be most helpful?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
Investors in regulated products receive comprehensive information regarding: (i) the options available to them to better understand the characteristics of a product, and (ii) the support available to them at both pre-contractual and contractual stage (including the possibility to refer to a financial ombudsman).	

No	Question
7	**Does investment advice provided to retail clients typically cover all types of investment products (e.g. shares, bonds, investment funds, ETFs), or are certain products rarely advised? If so, please explain which types of instruments are less commonly recommended and why.** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
There is currently a wide universe of investment products. Accordingly, firms can tailor advice based on each firm's client base and target markets.	

No	Question
8a	**To what extent does a lack of financial education or investment knowledge contribute to retail investors' reluctance to invest in capital markets?** *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.* • *A major barrier to investment* • *A contributing factor, but not the main issue* • *A minor factor compared to other concerns* • *Not a factor at all*
Response	
In our view, **it is a contributing factor, but not the main issue**. There are instead other factors that have greater impact on investor's reluctance to invest in capital markets. In particular, the existing overwhelming focus of disclosures on risks, costs, conflicts of interests and procedures to address potential claims, coupled with the absence of adequate disclosures on the opportunity for growth and return, the protection against inflation risks as well as the positive impact of investing via the capital markets, can create a negative perception of investment services, especially for individuals with low levels of financial literacy.	

No	Question

8b	**For consumer associations: Based on your interactions with retail investors, what are the most common knowledge gaps that affect their ability to make investment decisions? Are there specific topics where more financial education could improve engagement?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
9	**For consumer associations: Based on your interactions with retail investors, do psychological or cultural factors – such as fear of losing money, distrust in financial markets, or a preference for familiar products – play a role in retail investors' hesitation to invest? If so, which of these factors seem most important?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
10	**Are there any other significant non-regulatory barriers that discourage retail investors from investing in capital markets?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
As mentioned in previous responses, investors can be biased against regulated products and services due to the complexity and information overload (and the mono dimensional focus on risks) that they currently experience. This can incentivise investments in unregulated products for which investors receive no protection.	

No	Question
11	**What role do digital platforms and mobile applications play in shaping the investor journey? Are there digital features or tools that have simplified the investment process or improved investor understanding and decision-making? Conversely, are there aspects that may complicate the experience for some retail investors?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
AFME members are concerned that, due to the volume of mandatory information that must be integrated in digital communications, clients can feel discouraged from investing.	

No	Question
12	**How effective do retail investors find the current mechanisms for filing complaints and obtaining redress when issues arise with investment products or services? Do issues with these mechanisms play a role in retail investors' hesitation to invest? If yes, which improvements can be made?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
For regulated products, there are robust mechanisms regarding submission and handling of complaints, and clients receive detailed information on the process, as well as on expected response timeframes and the possibility to contact an ombudsman if they are not satisfied by the response to their complaint.	

No	Question
13	**What measures - whether market-driven or policy-driven - could help improve retail investor participation in capital markets?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
We reiterate the importance of creating a thriving investment culture based on information on the performance of markets over years. The current focus of disclosures on risks, costs and dispute mechanisms can undermine investor confidence in capital markets and affect the access of European companies to finance.	

No	Question
14a	**Do you believe that young investors are more attracted to speculative and volatile markets (e.g., cryptocurrencies) rather than traditional investments (e.g. investment funds)? If yes, what are the main reasons for this?** *Please select one or more of the 30 following options and please explain and provide practical examples, or evidence drawn from experience, where available.* • *The expectation of high returns* • *The perception of lower costs (e.g., no management fees, low transaction costs)* • *The ease of access and fewer entry barriers compared to traditional investments* • *A preference for decentralised, non-intermediated investments* • *Influence from social media and online communities* • *Distrust in traditional financial institutions and advisers* • *Other (please specify)*
Response	
Yes. As explained in previous responses the current regulatory framework can disincentivise investment in regulated markets and inadvertently favour investments in unregulated, highly speculative/volatile products.	

No	Question
14b	**For consumer associations: Based on your interactions with young investors, what factors most strongly influence their decision to invest in speculative and volatile assets like cryptocurrencies over traditional investment products? Are there particular expectations, misconceptions, or marketing tactics that play a key role? Do any of the following sources play a role in shaping young investors' decisions?** *Please select one* *or more of the following options and please explain and provide practical examples, or* *evidence drawn from experience, where available.* • *Specialised journals and periodicals* • *Finfluencers* • *AI-generated recommendations* • *Educational content from national competent authorities (e.g. podcasts, videos, social media)* • *Other (please specify)*
Response	
NOT APPLICABLE	

No	Question

15a	**MiFID II disclosure requirements aim to provide transparency and support informed investment decisions. In practice, do you believe these disclosures are helping retail investors engage with capital markets, or are there aspects - such as volume, complexity of content, lack of comparability, or format - that may reduce their effectiveness?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response

AFME members are concerned about the pace of changes to the MiFID II framework and stress the need for legal and regulatory stability. We would therefore urge ESMA to carefully consider the impact of continuous regulatory changes on businesses and investors.

However, AFME would be supportive of efforts that aim to streamline and simplify disclosure rules that do not effectively support investor protection. In particular, AFME welcomes the explicit reference made in recent SIU communications that the final outcome of the RIS negotiations should minimise regulatory burden with respect to costs and charges disclosures and put in place disclosure rules that offer information in a simple and easily understandable manner, thereby tangibly contributing to greater retail investor participation in the European capital markets.

Consistently with this approach:

a) We strongly oppose proposals which would re-instate costs and charges disclosure requirements for professional investors and eligible counterparties and we support proposals that would preserve the status quo, i.e. MiFID Quick Fix.
b) With reference to ex-post cost and charges reporting, we do not support proposals for an extensive and granular annual statement as currently drafted. The annual statement conflates different types of information and requires additional irrelevant information which: i) affect the readability and intelligibility of the document for retail investors, and ii) defocus clients' attention from the core subject of the statement i.e. the costs. Therefore, items other than costs or charges associated to financial instruments, investment services and ancillary services should be removed from the reporting on costs, associated charges and third-party items.
c) The tax information requirements in the annual costs and performance statement under new Article 24b (4) (c), should be removed.
d) The net performance should be disclosed in a way that is more intelligible and fit for retail investors' requests. In this respect, the requirement to provide information about net annual performance of each of the financial instruments included in the portfolio should be removed since it seems extremely granular, redundant and disproportionate.

Current proposals on costs and charges run contrary to the EC's simplification objective and are not conducive to the achievement of the greater levels of investor participation.

No	Question
15b	**For consumer associations: Have retail investors reported difficulties in using MiFID II disclosures to support their investment decisions? Are there specific areas (e.g., costs, risks, product features) where excessive or unclear information makes investing more difficult? Have you observed issues with the presentation or format, or comparability, of disclosure materials that may affect how well investors engage with the information? Which disclosures (which specific information) do you consider genuinely necessary, regardless of specific legal requirements under MiFID II or other sectoral legislation? Would alternative formats (such as visual aids or summaries) improve comprehension and decision-making?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response
NOT APPLICABLE

No	Question
15c	**For firms: Have firms observed cases where retail investors disengage or hesitate to invest due to the volume, complexity, or presentation of disclosures? If so, what are the main factors contributing to this? Which disclosures and contractual documents do firms consider genuinely necessary, regardless of specific legal requirements under MiFID II or other sectoral legislation?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response

We highlight the importance of empirical research in order to identify areas where the volume, complexity, or presentation of disclosures can steer investors away from capital markets. In this respect, we refer to the key findings from some recent studies on the impact of MIFID II and PRIIPs:

- As evidenced in an impact analysis by Paul, Schröder & Schumacher (2019)[2], the more extensive information now available as a result of MiFID II/MiFIR and PRIIPs Regulation has created information overload, together with uncertainty. The higher degree of standardisation has not mitigated this problem – instead, in most cases it has led to further disadvantages due to less flexibility and customisation.

- Furthermore, in a market research survey published by BaFin in 2019 on the effect of financial market rules in MiFID II on consumer behaviour it was established that a large number of investors do not make enough use of the new information[3]. For example, 38% of the participants in the survey who sought investment advice declared that they did not read the suitability report, citing that there is too much information (64%) or that the report is not of interest to them (24%).

No	Question
16a	**Do retail investors find the PRIIPs KID helpful in understanding investment products?** *Please provide details notably on the elements that are the most helpful and on ways to improve them. If not, are there alternative ways to protect retail investors that could be considered, while not increasing the volume of required disclosures.*

Response

The PRIIPS KID is now **satisfactorily** understood by retail investors and stakeholders. Even if not perfect, as its substantive content can be perceived as excessively detailed and technical, considering its objectives of having a harmonised and prescriptive set of rules for all packaged investment products to make them as suitable as possible for retail investors, we consider that the current KID can achieve those objectives.

Taking into consideration that the regulatory framework has been substantially reviewed multiple time over the last few years, we would favour **regulatory stability** and would flag that successive changes of the framework are costly, disruptive and therefore, inefficient. At the very least, any proposal for changes of both content and format should beforehand demonstrates it would significantly improve the KID for retail investors, based on a comprehensive consumer testing, and industry consultation on a wide and representative sample of products.

[2] https://die-dk.de/media/files/Auswirkungsstudie_MiFID_II_Prof_Paul.pdf
[3] https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Meldung/2019/meldung_190607_Umfrageergebnisse_MiFIDII.html

We further stress that implementation costs of PRIIPs KID since 2018 have been considerable, and the PRIIPs KID review of scenario and cost table applicable since January 2023 caused further implementation costs.

In this context, we note below some of the most problematic RIS proposals on the KID which are in contrast to the fundamental objective to put in place disclosures rules that offer appropriate information to investors in a clear, simple and easily understandable manner:

- **Comparative tool:** We do not support the inclusion of the comparative tool, as proposed by the EP. In the case of multi-option products, we note that this proposal includes a reference to PRIIPs manufacturers providing investors with tools adapted to retail investors that facilitate research and comparison among the different investment options, including on cost of underlying investment options and total costs of the relevant PRIIPs. Given the differences between products and the ways in which they are assessed, we have doubts about how standard or comparable any such information may be. We are concerned that a focus on comparability that does not take these differences into account, rather than being useful, would negatively affect the ability of investors to adequately compare products. This would, again, potentially cause more harm than good and may further confuse investors and the market rather than make things simpler and more efficient.
- **Voluntary interactive tool**: The proposal poses additional compliance challenges for firms, for example in trying to build systems to check and record which information within a KID each retail investor has actually accessed and (if this were to be a requirement) in ensuring that the retail investor is provided with any information from the KID which they did not specifically choose to access. Further, there is concern that a "personalised" customer journey could mean that some retail investors do not "select" to see all parts of this key information or that is used in an "improper" way (e.g., with predictive objectives). It should be clarified that provision of the interactive tool does not replace the obligation to provide the client with the KID document in its entirety. In addition, the framework is not suitable for structured products.
- **Layering**: We oppose provisions which require the provision of the KID in a layered format. This would be unlikely to generate significant benefits for potential investors e.g. the increased accessibility of the document. The KID is a relatively short document and we should encourage investors to carefully read the entire document rather than (subjectively) suggest that some parts are more important than others. In addition, the effort required to define and implement the new structure of the KID (IT, layout etc.) would be substantial, including enabling investors to read the document on the intermediary's website. In conclusion, the onus on firms is not matched by commensurate benefits to investors.
- **New obligation by the EP to provide the KID together with the marketing communications relating to a given PRIIP**: This is unnecessary, considering that: i) marketing communications are designed to reach a wide range of clients and try to attract their interest; ii) some clients may not pay attention to such communication and consequently would not read any related KID.

No	Question
16b	**For consumer organisations: Based on your experience, are PRIIPs KIDs made easily accessible to retail investors – for example, are they clearly available on firms' websites or other relevant channels?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
17	**For firms: Do you measure investor engagement with KIDs and digital disclosures (e.g., click-through rates, reading time, or interactive tools)? Are these available in formats adapted to mobile-first environments?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
AFME members are supportive of a standardised format for KID. We are cautious that an approach that will provide incentives for different formats or ways to present disclosures will add complexity and prevent comparability among different products. Moreover, as explained in our response to Question 16a, AFME members do not support the inclusion of the voluntary interactive tool or of the "personalised" KID customer tool. Similarly, we do not favour layered format for KIDs. KID is a relatively short document and, investors should be encouraged to carefully read the entire document rather than subjectively treat some parts as more important than others. We also note that the retooling efforts and costs involved would be very substantial, especially for smaller firms. Overall, none of those proposals will bring real benefit to retail investors.	

No	Question
18	**Do retail investors find the costs and charges disclosures helpful in understanding the costs of investing?** *Please provide details notably on the disclosures that are the most helpful (e.g., total costs, illustration of cumulative effect of costs on return) and on ways to improve them.* **If not, are there alternative ways to protect retail investors that could be considered while not increasing the volume of required disclosures?**
Response	
As explained in our response to Question 15a, costs and charges disclosures is an area where information overload has been observed and this can negatively impact investor engagement. Accordingly, we believe that there is scope to improve associated disclosures via streamlining some of the existing MiFID requirements.	

No	Question
19	**Do firms apply layering of information on costs on charges on digital platforms or in mobile applications (e.g., by showing only the total amount and percentage on the order screen, and all required information in a PDF)?** *Please provide details, also on the appreciation of retail investors of this application of layering.*
Response	
There is currently a growing trend (facilitated by the use of AI) in accessing information on demand so that investors receive exactly the information which they deem more relevant to them. This is a more attractive and effective way to ensure better informed decisions than applying layering of information.	

No	Question
20	**Do retail investors find the quarterly statements helpful in keeping track of their investments?** *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.* *• Yes, it provides clear and relevant information* *• Somewhat, but the frequency could be lower* *• No, the information is usually readily available to the retail investor online and thus the statements do not have much added value*

	• *Mixed views (please elaborate)*

Response
Mixed views. Based on anecdotal evidence, a sizeable part of the investment community does not use quarterly statements to keep track of investments.

No	Question
21a	**Do retail investors find the information on every 10% depreciation of leveraged instruments, or the portfolio value in case of portfolio management, helpful in keeping track of their investments?** *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.* • *Yes, it provides timely and relevant information* • *Somewhat, but the trigger for sending the information could be improved (e.g., when the performance of the portfolio is x% worse than the benchmark, if a benchmark has been agreed)* • *No, this information may arrive at a moment of temporary market stress, triggering impulse-driven investment decisions at the wrong time.* • *Mixed views (please elaborate)*

Response
No. This requirement does not promote long-term investment: for example, the information may arrive at a moment of temporary market stress, triggering impulse-driven investment decisions. We would therefore suggest that this disclosure requirement is removed.

No	Question
21b	**If considered necessary, how could the 10% loss reporting be improved?**

Response
We think that this disclosure requirement should cease to apply. Please refer to our response to Question 21a.

No	Question
22	**To what extent do questions and measures on customer due diligence in accordance with AML/CFT requirements create barriers that prevent retail clients to start investing?** *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.* • *A major barrier to investment* • *A contributing factor, but not the main issue* • *A minor factor compared to other concerns* • *Not a factor at al*

Response
AFME will not respond to this question.

No	Question

23	**Do questions and measures on customer due diligence in accordance with AML/CFT requirements affect the onboarding experience for retail investors? Are there particular steps in the process that cause delays or confusion?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
AFME will not respond to this question.	

No	Question
24	**For firms and trade associations: to what extent do national tax regimes create barriers to offering investment services and attracting retail investors on a cross-border basis?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
Taxation relief is a core investment driver and tax incentives, including those aimed at promoting pension savings, are indeed instrumental for capital market investments by retail customers. For that reason, each Member State needs to keep the scope of eligible instruments under any national tax-privileged investment schemes as wide as possible to avoid market distortions through investor bias and maintain a level-playing field. The divergences across tax regimes can create complexities in the provision of investment services. Existing operational challenges in collecting withholding taxes and processing Double Tax Treaty refunds should be addressed. Overall, fiscal treatment may influence retail clients in investing in financial instruments whose national regime is favourable.	

No	Question
25	**To what extent do tax-related issues discourage retail investors from investing in investment products issued or manufactured in another Member State?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
Please refer to our response to Question 24.	

No	Question
26	**For consumer organisations: Based on your interactions with retail investors, do they experience information overload when making investment decisions? If so, what are the main sources of this overload? Do regulatory disclosures, marketing materials and contractual documents support investor understanding, or do they contribute to the confusion?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
27	**For consumer organisations: Are there specific examples where the way information is presented – whether in regulatory disclosures, contractual agreements, or marketing material – makes it difficult for investors to focus on key elements such as costs, risks, or the nature of the service? With regard to marketing material, is the fragmentation of information across**

	different documents or channels a material issue that affects investors' ability to fully understand what they are buying? *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
28	**For firms and trade associations: Which steps do firms take to make investment service agreements (contracts) more accessible and understandable to retail investors?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
Over the last few years, there have been various industry efforts in some national markets to make the structure and the terminology of the investment service agreements clearer for investors. Nevertheless, as acknowledged by ESMA in paragraph 26 of the CfE, investment service agreements are often lengthy and complex. We highlight that this complexity reflects the extreme level of granularity of legal and regulatory requirements stemming from level 1 and level 2 rules as well as level 3 guidance. This necessitates a careful review of the relevant framework to ensure streamlining and simplification of the information that must be provided to clients that access investment services.	

No	Question
29	**To what extent do retail investors find the process of regularly/periodically providing and updating personal and financial information for suitability assessments clear and workable?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
Based on anecdotal experience, when it comes to providing and updating the necessary information, retail clients do not express particular reluctance or resistance. Nevertheless, more room for proportionality would be welcome, as no full reassessment seems to be necessary when the investment is small compared to the value of the client assets, or the allocation of the portfolio is not modified by the investment.	

No	Question
30	**For consumer associations: Have retail investors raised concerns about the amount, frequency and type of information they are required to provide for the purpose of suitability assessments? If so, what are the main difficulties they face?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
31	**Are there any steps in the information collection process that could be simplified without compromising investor protection and the objective of this collection which is to propose suitable investments matching client profiles?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
We note in particular the following problematic of proposals which are currently being discussed in the context of the RIS.	

- **Independent advice "soft" regime:** We deem it questionable to qualify "advice" under a lighter test that favours consideration of well-diversified, cost-efficient and non-complex products over the knowledge and experience of the retail client for independent advisors only as this would create an unlevel playing field.
- **Portfolio Diversification:** the potential consequences derived from the requirement to consider portfolio(s) not held in the books of the advisor would be extremely challenging and disruptive for clients and for intermediaries. First, this would add unnecessary duplication and increased complexity to the framework regulating financial advice. Second, the concrete feasibility and implementation of such measure raises serious doubts since the investable universe differs from one firm to another. Third, we hardly see the rationale in having to diversify a portfolio while considering portfolios in relation to which it is not possible to provide advice. Fourth, it is not clear how a mandate could adapt to an evolving portfolio held with a third party.

Furthermore, **we stress the need for greater proportionality in the suitability assessment framework**. Investment firms currently face considerable operational challenges as asset allocation is assessed by reference to individual financial instruments. For example, a client who wish to invest in shares of Company A has to provide detailed information in the context of the suitability assessment. When the same client wants to change that position and invest in shares of Company B instead, they have to provide again detailed information despite the fact that their investment remains in shares and thus, there is no change at asset level. We therefore see merit in a framework that would focus on asset allocation at portfolio level to reduce costs and complexity in the information collection process.

No	Question
32	**How do retail investors perceive the integration of sustainability preferences in suitability assessments? How has it impacted the investment advice/portfolio management services they receive?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response

The current MiFID II framework on sustainability preferences is perceived by clients as overly complex and it has been observed that only a low number of investors provide detailed sustainability preferences.

One of the main issues lies in the **complexity** of the definition of such preferences, relying on technical and complicated concepts under SFDR, such as the 'taxonomy alignment' and 'principal adverse impact' consideration, the complexity of which is further amplified by associated quantitative thresholds.

This complexity also creates **challenges for manufacturers in their target market assessment** to define sustainable features.

Also, we note **inconsistencies** amongst relevant regulations. For many products enhancing ESG purposes, the qualitative and quantitative aspects (relating to the measuring the ESG contribution) to define sustainability preferences as part of the target market specifications are set out in MIFID II and the IDD frameworks, while the relevant SFDR rules, due to the limitation of the scope of SFDR, cannot be applied. Such inconsistencies lead in practice to a high level of legal uncertainty which hinders the application of the target market criterion (under MIFID and IDD) and limits the support available to investors when selecting ESG-related products.

It is also especially burdensome that clients must express **new** sustainability preferences when no suitable product is available that matched their "initial" preferences. Such process, which is reiterated at each stage

of the advice, offers limited value: in any case the client has the option to proceed (or not) with the investment after having been informed of the characteristic of the specific product. **AFME is supportive of streamlining sustainability preferences and promoting greater consistency and harmonisation across regulations (notably, MiFID, IDD, SFDR, Benchmarks Regulation, PRIIPS Regulation, EU Green Bond Standard). This will enhance the usability of relevant disclosures by investors and reduce the operational challenges for firms that integrate sustainability preferences in suitability assessments.**

No	Question
33	**For consumer associations: Have retail investors expressed concerns about the new elements related to the "sustainability preferences" and the way they are incorporated into the investment process (are they explained in an understandable way to clients)?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
34	**For firms and trade associations: Have firms observed cases where clients struggle to express their sustainability preferences in a meaningful way? How have these issues been addressed to help retail investors?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
Please refer to our response to Question 32. Firms have been observing cases where clients struggle to express their sustainability preferences in a meaningful way or even renounce them. In our view, this is due to the fact that the definition of sustainability preferences is too complex and not well suited for certain financial products. Furthermore, the fact that clients have to go again through a complex process to express new sustainability preferences (to match with the characteristics of the (suitable) products available in the market) can make them feel disengaged from advice.	

No	Question
35a	**Do retail investors find suitability reports helpful in understanding why a specific investment was recommended? In your view, do these reports add meaningful value for clients?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
Anecdotal evidence indicates that suitability reports can often be viewed as highly complex. Investors will typically make their own preferences without necessarily relying on those reports. In addition, it is a regulatory requirement that the advice provided *must* be suitable, so specifying that via additional disclosures in the suitability report does not appear to add any value to investors.	

No	Question
35b	**For consumer associations: Do you think suitability reports are a useful tool for the protection of investors and the prevention of mis-selling?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*
Response	
NOT APPLICABLE	

No	Question
35c	**For firms and trade associations: What steps have firms taken to ensure suitability reports are concise, clear, and valuable to retail investors?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response
Investment firms are concerned about the costs and complexity relating to suitability reports and, in some national markets, many efforts have been deployed to improve the intelligibility of suitability reports, for example through a more extensive recourse to graphic elements, making information less narrative/text heavy. A change of approach where focus will be placed on addressing suitability at portfolio level (so that asset allocation is considered more holistically and not by reference to individual financial instruments within the same asset class) can also help remove the existing challenges and add greater value for investors.

No	Question
36a	**Do you believe the MiFID II appropriateness assessment helps ensure that retail investors understand the risks of the products they invest in?** *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.* • *Yes, it is an effective safeguard.* • *Somewhat, but there is room for improvement.* • *No, it is not particularly effective.* • *Mixed views (please elaborate).*

Response
In our view **it is an effective safeguard**. AFME members also stress the need for regulatory stability and do not recommend any major overhaul of the current level 1 and level 2 rules in relation to the appropriateness assessment. However, there is scope for simplification in level 3 guidance related to the requirements on knowledge and experience of clients to ensure an appropriate level of proportionality. Furthermore, we note that knowledge and experience should be considered holistically, reflecting the overall comprehension of the product by the client. For example, clients who do not having any prior experience could never be offered advice on products, even if they understand them.

No	Question
36b	**For consumer associations: Have retail investors raised concerns about the appropriateness assessment?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response
NOT APPLICABLE

No	Question
37	**Do current appropriateness rules and how they are applied by firms effectively address new types of services that combine payments, savings, and investment features?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response
Yes. Please also refer to our response to Question 36a.

No	Question
38	**Are educational tools used during the onboarding process for retail clients? In your experience, are these tools primarily aimed at improving financial literacy, or are they mainly used to justify client access to complex financial products?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response
We query the usefulness and effectiveness of educational tools as part of the onboarding process given that the content of those tools may not always be appropriately calibrated to reflect the specific characteristics of products.

No	Question
39a	**Do you believe the current approach to assessing client knowledge and experience via the appropriateness test (i.e., going beyond self-assessment) creates any barrier to retail engagement in financial markets?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response
Based on anecdotal experience, the current approach of assessing client knowledge and experience via the appropriateness test (i.e. going beyond self-assessment) has not created problems for retail clients and has not operated as a barrier to their engagement in financial markets. That said, we deem particularly problematic a number of proposals currently being discussed in the context of the RIS. The proposed appropriateness test requires intermediaries to ask retail clients about their risk tolerance and ability to incur losses risks which, in our view: i) blurs the distinction between the appropriateness and suitability assessments (which is a fundamental pillar of MiFID investor protection framework), and ii) makes the process of the collection of information from the client unduly burdensome without proportionate increase in the level of protection or satisfying the needs of the investors (clients who operate exclusively under the appropriateness regime have already expressed their interest to make investment decisions autonomously, with no interest in investment advisory services).

No	Question
39b	**For consumer associations: Have retail investors raised concerns about how their knowledge and experience are assessed?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response
NOT APPLICABLE

No	Question
40	**Based on your experience, are there aspects of the crowdfunding investor journey that could be improved to better support retail investors, whether in terms of clarity, accessibility, or overall user experience?** *If so, please explain which aspects you would amend and why, including any suggestions for improvement.*

Response

AFME will not respond to this question.

No	Question
41	**Does the current regulatory framework strike the right balance between protecting retail investors and allowing them to take informed investment risks?** *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Response

AFME stresses the need to increase investor demand and engagement in capital markets. For many years, the focus of disclosure has been on flagging risks to investors which has contributed to the development of negative perceptions towards investing. Therefore, appropriate consideration should be given to the balance between risks and rewards as it is crucial for investors to understand that channelling money to productive investments can foster their wealth due to the higher returns that investors can enjoy.

MiFID II, as well as IDD and PRIIPs Regulation, have introduced a highly burdensome customer journey architecture for firms to implement. While we support the aim of simplifying the existing framework, we remain cautious about the objectives of the ESMA CfE in view of the parallel reviews under the RIS and the European Commission's SIU-related initiatives on simplification and burden reduction. Simplification should not mean creating new sets of rules or substantial changes in the current framework that would create disruptive and costly implementation efforts.

In our view, simplification efforts should focus on the following areas:

i) **A detailed review of level 2 rules and level 3 materials** that require firms to collect from clients or provide to them, often on a systematic basis, a significant volume of information which can overly burden the client's journey (see also our response to Question 28 for further details).
ii) The definition of **sustainability preferences** that are too complex and not well designed because of inconsistencies amongst relevant legislations (see also our response to Q32 for further details).
iii) The possibility to **opt up for a professional client categorisation**, as being discussed within the RIS context. As the RIS proposal aims to make it easier for more experienced investors to be classified as professional investors, it is important that firms can present this possibility, together with its risks and advantages, to eligible retail clients, who may not be aware of the consequences of their classification, or of the possibility to request re-categorisation. The UK is currently also proposing to rebalance risk to support growth and competitiveness, ensuring that expectations remain proportionate when dealing with wealthy or very experienced investors[4].

For other areas of MIFID and PRIIPs Regulation, legal and regulatory stability should prevail over disruptive changes that would not add real value for investors.

We also reiterate that attracting investment requires net performance, which must not be eroded by withholding taxes, and should ideally be supported by **targeted tax incentives** that should be recommended for a wider scope of investment products.

No	Question
42	**Are there any aspects of the retail investor experience – whether related to firm practices or the regulatory framework – that are not sufficiently addressed in this consultation or in the current MiFID II rules?**

[4] https://www.fca.org.uk/news/press-releases/fca-modernise-rules-unlock-investment

	If so, please explain where changes in rules, or further supervisory attention or guidance may be helpful.
Response	
We reiterate our support for proposals that aim to increase retail participation in the EU and we are mindful of the need to reduce excessive regulatory burden on firms in order to deliver a more streamlined and proportionate investor journey framework.	

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AFME

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. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) 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) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.