Retail Investment Strategy

Febelfin has both contributed to and endorses the position of the European Banking Federation. Our response to the consultation should be viewed as a complementary perspective to the EBF's position.

Have your say – Febelfin feedback

Febelfin provides feedback from the perspective of the financial industry. Representing credit institutions and investment firms in Belgium, Febelfin assumes the roles of both manufacturers and distributors of financial instruments, excluding insurance products.

General considerations

The Belgian financial industry fully supports the aim of the Retail Investment Strategy to make capital markets more attractive for consumers, however, in our opinion, not every element of the RIS proposal is effective to that end. Other elements are considered as rather positive. **The proposed amendments on financial literacy, digitalisation, training of staff and finfluencers are very much welcomed.** The Belgian financial industry and Febelfin are strong partners in strengthening financial literacy and acknowledge that good background knowledge is key for consumers to better manage their money. The amendments on **marketing and communication** to provide for more transparent communication are also welcomed but it should be specified that this provision only applies to investment services.

Notwithstanding the above, based on our initial assessment, the proposal is far-reaching and could strongly impact the current financial services landscape that offers great diversity. The sector is in the process of reviewing the proposal in depth and also aims to propose alternative solutions for issues that would merit attention for the benefit of consumers but are - to our view - adversely being addressed by the current proposals. We also note that several of the proposals have not been subject to a thorough cost/benefit analysis and that many details will be determined on level 2 which makes the impact of the proposals difficult to analyse (such as many of the new reporting requirements). Most notably the proposal also has a great impact on professional investors while the RIS focuses on retail investors. The existing proposal contains a review clause designed to evaluate the impact of the directive on potential conflicts of interest and the accessibility of impartial advice. Febelfin proposes a more encompassing evaluation of the directive's effects, examining the tangible results stemming from all executed measures. The review timeline should consider the progression of level 2 legislation to ensure a thorough assessment.

Throughout the proposal, there is a strong focus on costs, this is unwarranted. Merely because costs are quantifiable does not imply that they should be regarded as the primary driver for all retail investors' preferences. Febelfin strongly supports enhancing cost disclosures for retail investors. However, for these efforts to be effective, we need to tailor the improvements to fit the specific needs of retail investors and consider how different aspects of costs could be presented alternatively. Adding layers of granularity won't necessarily provide retail investors with more valuable information but might instead result in an information overload.

Ban on inducements

Febelfin welcomes the fact that the RIS does not contain a proposal for a total ban on inducements which in our opinion would lead to negative effects for many retail clients in Belgium, by creating an advice gap and severely limiting the client's access to a broader product offering. We have concerns however in respect of the introduction of a new partial **ban on inducements for execution services** and want to underline that it is very important from a CMU perspective that retail clients have access to different types of services and products and that banks and investment firms are able to compete with different business models. Especially (small) issuers who operate under distribution agreements, risk losing their method to attract distributors. The wide range of available products may diminish, leading to a landscape dominated by a handful of issuers in the EU.

It is important to note that there was an impact assessment on the full ban on inducements which turned out to have grave effects whereas for this **partial ban, no real assessment** has been done. We also find the new "best interest of client"- test to be complex and raise many questions. The new test disregards the quality of investment advice for the benefit of a quantitative approach whereby the objective is to recommend the most cost-efficient financial instruments, with potential negative impacts also on investment advice with a portfolio diversification approach.

Product governance requirements – Value for money

Febelfin is generally supportive of the principle that clients should get **"value for money"** but strongly objects to centralized EU benchmarks for financial products. In our view, this proposal is equivalent to a price regulation at EU-level, and it also gives rise to serious concerns from a competition law and implementation perspective. The wording in the proposal is unclear on what "costs" mean and which product categories will be used. This will have to be decided on in Level 2 legislation but is essential to the functioning of the benchmarking system. **Any type of**

benchmarking should take into account that it is impossible to compare products from different member states. The granularity of the benchmarks needs to be unattainably high in order to provide for a meaningful outcome. The cost structures are very different, with different stock exchanges, clearing- and settlement mechanisms, labour costs and fiscal regimes. Considering this, the Belgian financial industry is weary of a race to the bottom. This could heavily impact local markets but also push consumers towards products that are not managed with the same diligence. Finally, this proposal will add a lot of reporting obligations for both producers and distributors, making investing through local distributors even less competitive by encouraging a uniform pricing system.

For retail investors, not only quantitative parameters play a role in deciding on investments. Portfolio diversification and evermore sustainability preferences play an important role. Advice merely focused on quantitative elements do not necessarily result into good advice.

Appropriateness and suitability

Febelfin welcomes proposals that simplify and tackle existing problems with information overload to retail clients, including a review of the opt-up regime for sophisticated clients. However, we are concerned that some of the EC's proposals will have quite the opposite effect and **increase the complexity** to little benefit for clients, e.g. the extension of the appropriateness regime.

In Febelfin members experience, the MiFID II **rules on appropriateness and suitability** work well. In our view, it is particularly important that the MiFID II framework maintains the distinction between execution and advisory services, considering that these services serve diverse needs for clients. In case of a large alignment between the appropriateness and suitability assessment, confusion could be created at the client side regarding the service and its protection.

We are therefore concerned that with the EC's proposal, banks and investment firms should collect information on clients ability to bear loss and risk tolerance when conducting the appropriateness test. These aspects typically pertain to the suitability test. Such proposals will **blur the distinction between suitability and appropriateness** assessments. This will increase the complexity of the rules and not be to the benefit of clients.

Another example of increased complexity is the additional check on portfolio diversification needs in the suitability assessment. It would require investment firms to obtain information on the composition of any **existing portfolio** of the client or potential client. We would like to highlight that the obligation to perform this assessment (portfolio diversification check) on the total assets of customers could cause unwanted negative effects on the quality of the advice in general and could conflict with the conscious choices of investors. The suitability and appropriateness tests are to be performed at portfolio level (advice portfolio) only. We would like to stress that apart from the argument already mentioned by the EBF that this would limit the freedom of investors to choose having different portfolios and portfolio types with different strategies, it would also cause that decisions in one portfolio type could impact the advice in a different portfolio type.

For example, a retail customer with an ongoing portfolio advice relationship (mixed funds, bonds,…) and a separate portfolio of stocks in execution only: the individual choices of the retail investor in its stock portfolio would or could immediately impact the advice portfolio due to the need for portfolio diversification, f.e. an execution-only sell order of all USD funds could generate an automated buy advice in the advice portfolio for USD funds, first of all because the advice we provide is always in line with our investment strategy which determines that a balanced portfolio should also be invested for x amount in USD funds (hypothetically) and secondly because we need to take into account all existing financial and non-financial portfolios of that client when advising our clients. This would probably not be the intention of the legislator. Furthermore, it would confuse the retail investor.