



**FINANCE
DENMARK**

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

Finance Denmark appreciates the opportunity to contribute with a collective response on behalf of our members to select questions. Finance Denmark represents banks, mortgage institutions, asset management, securities trading, and investment funds in Denmark as well as being an employer's association. Finance Denmark therefore consistently takes a holistic approach on how the market as well as regulatory efforts work and interact across the different links in the investment chain from manufacturers, distributors, advisors and how end investors are affected.

We appreciate that this Call for Evidence is in line with the general focus on simplification and burden reduction in the Union. It is one of our fundamental views that keeping the investor journey simple, yet safe, for the investor will help to boost retail investor participation and make sure that investors continue to stay active in the capital markets. A streamlined and investor-centric regulatory approach is needed which simplifies investor experience, removes unnecessary market barriers, and harmonizes regulation across Europe to create a level playing field between market participants.

Finance Denmark below provides answers to select questions, while some questions are not included as they are targeted individual firms.

Q1: 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.*

A1: It is firstly worth highlighting that the Danish market has been quite successful in activating retail investors and creating a high level of investor participation relative to other European markets. A lot of this is likely owed to the fact that most Danish employees are auto-enrolled into an occupational pension scheme, ensuring that their pension savings are activated in the capital markets. Furthermore, there is a high level of digitization in the society – both in terms of services provided from financial institutions but also among citizens – this makes it easier for investors to seek investment platforms and vice versa. Factors such as these have made it possible to foster a strong and growing investor culture, which is further boosted by easy and accessible solutions, such as Savings & Investment Accounts, which attract new investors. Nonetheless, there are still areas of improvement, many of which could be helped along by a simplified regulatory framework, which will provide more flexibility to both investors and the financial sector.

Retail savers often refrain from investing due to a combination of cultural, educational, regulatory, and structural barriers. The investment landscape can appear complex, inaccessible, and overly risky, deterring many from participating in capital markets. Due to a lack of financial literacy, retail savers may have a perception that investing is very risky and complex, even though it does not necessarily have to be so, reflecting a lack of understanding of the positive effect the capital market can have on our savings compared to the negative effect of

inflation on savings held in a bank account. This is often coupled with a belief that extensive knowledge of the field is required before getting started, which is particularly pronounced among women. Finally, the hesitancy to invest is then further enhanced by an overwhelming amount of information when starting out, such as the long documents that must be accepted or signed at the beginning. This signals complexity which then further fuels uncertainty for potential new investors.

Therefore, it is essential that the regulatory landscape and the capital markets both aid in fostering a stronger investor culture, which includes informing new and experienced investors without overloading them with complex, unnecessary information.

We perceive in general that three key reasons contribute to low investor participation: Lack of information and knowledge (low level of financial literacy); a complicated and lengthy investment process and (perceived or actual) high costs.

Nonetheless, the Danish market has been successful in creating attractive conditions for retail investors, which has contributed to Denmark having the lowest share of financial assets kept in deposits in the EU (only 20%) ([Link - EFAMA Factbook](#)), and a high and increasing level of retail participation. In 2023, 1.42 million Danes were investors (excluding pensions), corresponding to 30 percent of the adult population. In 2019, the share was 25 percent.

This is achieved due to many factors which include Denmark's strong pension scheme, but importantly also as the Danish market has mitigated the three key reasons listed above:

- Denmark has one of the highest levels of financial literacy, which is key in attracting investors to the capital markets and to ensure that they have confidence in the markets and in the investment process and advice received through their banks.
- As such, the Danish market is characterised by the presence of full-service banks through which customers can also invest, which helps lower the barriers to entry for first time investors. This in combination with a high level of digitisation among the public and for client solutions and services helps make the investment process easier for investors.
- And finally, investment costs are relatively low and have been decreasing. As per ESMA's cost and performance report from 2023 ([Link](#)), Denmark ranks among the EU countries with the lowest management costs across asset classes as well as a low share of ongoing costs for both equity and bond UCITS relative to the net performance.

Q2a: 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

A2a: A moderate concern. However, retail investors have a multitude of products and services to choose to invest in, and different channels to invest through. This makes it very difficult to state in such general terms whether the investment products in general are too complex.



In any case, to ensure investor participation while keeping in line with the general simplification agenda, it is more beneficial to ensure that investors have better and more accessible access to solutions for investing – both digitally, through investment advisory services, and by increasing financial literacy to also foster a stronger investor culture and confidence.

In this regard, we strongly advocate for a simplified regime for the suitability test that investors undergo in investment advice, pursuant to MiFID II. As part of the Commission's proposal for a Retail Investment Package, a simplified regime for suitability is introduced, but this is limited only to independent advisors. Such a regime should be available to all advisors to ensure broad access for all investors.

Furthermore, it is imperative that disclosures to investors, both pre- and post-investment, are kept as simple as possible. Investors face information overload already under the current regulatory environment, and the proposals discussed in the Retail Investment Strategy are unlikely to make the situation better for investors.

In terms of products and accessibility, it is worth learning from existing market practices that have been successful in attracting more new investors to the capital market. One example is the prevalence of Savings and Investment Accounts (SIAs) particularly in the Nordics. SIAs provide investors with a tool to facilitate their investor journey through tax incentives and simple solutions. The experience and lessons learned on SIAs is described further in the answer to Question 13 and in the Annex.

As mentioned, investors seeking investment advice – whether independent or non-independent – undergo a suitability test and receive guidance in their investment decisions, which should ensure that they understand the investment products suitable for them as well as their associated costs and risks.

Most new investors without a background in finance or similar fields benefit from an explanation of the different asset classes and the potential upside and risk associated with them. This includes not only individual stocks but also, to a large extent, investment funds and ETFs. Once these concepts are explained, they make sense to most people. There are many options for investing, both in terms of platforms – such as one's own bank, online brokers, and robo-advisors – and in terms of the variety of assets to choose from, ranging from relatively simple products, which people can understand once they are explained, to very complex products like leveraged certificates and similar instruments. While this abundance of options can be positive, it can also be confusing for many.

In Denmark, there is a strong focus on providing clear explanations from both traditional and newer market players. Automated solutions that operate according to the dollar-cost averaging principle have also become increasingly popular. These solutions allow new investors to invest a fixed amount monthly without needing to have extensive knowledge of the field beforehand, making them an attractive option.

The good news is that many people are keen to learn more, so the potential is significant if the right explanations are provided.



Q3: 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

A3: **Somewhat, but other factors (e.g., trust, risk appetite) play a bigger role.** Significant losses can be difficult for most investors to cope with, especially investors who begin their investment journey just before a major downturn – as seen in recent examples such as COVID-19 and the war in Ukraine. These investors often experience severe shocks, and some inevitably withdraw from the market altogether, concluding that investing was exactly as risky as they had imagined.

However, Danish retail investors generally have an understanding that there will be periods of small losses or losses on individual investments. This understanding is partly supported by Denmark's comprehensive pension savings system, where most people's savings are invested, though by professionals. We saw almost no outflows through the COVID crisis, for instance, by investors in investment funds.

Clear information can play a crucial role in increasing financial literacy and providing the necessary understanding that markets move both up and down but tend to trend upward over the long term. Understanding the impact of a long investment horizon is essential.

Q4a: 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**

A4a: **No, fees are not a significant concern for most retail investors.** Investors are naturally interested in understanding the costs related to their (potential) investments, but there are other factors that deter investors from investing in the first place. As mentioned in A1, lack of financial literacy and beneficial conditions for a strong investor culture are among the biggest factors discouraging retail investors from investing. Evidently, costs will always be a factor in any financial decision made – regardless of whether it concerns investing or buying groceries – but it is not an obstacle to investing. Evidence from the Danish market shows that the combination of a highly digitalized society with digital investment solutions granting more easy access to investing as well as a high level of competition among investment companies and funds have caused relatively low and decreasing product costs.

Many banks and investment service providers today offer different products and services at different costs to cater to the different investors' needs and means. To this end, it is very important that the disclosure of investment costs is kept as simple as possible, as complex cost and charges disclosures potentially risk deterring investors more than the actual costs themselves. Disclosures made for retail inves-



tors must be simple and easy to understand without presenting unnecessary information.

Q5a: 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**

A5a: A minor/no factor. It is important to note that Denmark is generally a country characterized by a high degree of trust, both between citizens and in their relationship with authorities and financial institutions. This high level of trust has created a solid foundation for a well-functioning society, including the financial sector. While a lack of trust might be a barrier in some countries, in Denmark this is not typically a significant factor influencing retail investors' reluctance to invest.

Q6: 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.*

A6: Firstly, the availability of investment advice might vary across Member States, and secondly, it is difficult to draw conclusions on investors' experience in general without the appropriate data from the market. Yet, in general, it is important that the regulatory environment allows for different communication channels to be used for investment advice, especially digital communication. It is to be expected that many investors of the younger demographic are most accustomed to seeking information online via their smartphones. Being able to seek advice digitally increases access to advice and is likely more convenient for investors. In that regard, a lighter suitability regime available to all investment advisors for non-complex products would be a potentially very strong tool in increasing investor participation – especially through digital channels.

Danish retail investors generally report that they have access to adequate investment advice and relevant information, especially through full-service banks and a high level of digitization. However, some new investors still find the amount and complexity of information to be overwhelming, which can be a barrier to engaging with the markets. In these cases, more accessible and simplified explanations of investment products, especially their risks and costs, would be helpful. Additionally, financial education initiatives and clear, unbiased guidance would further support retail investors who face difficulties in understanding these products.

Q7: 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.*

A7: As in line with MiFID II requirements, the investment products offered to investors through investment advice are a product of the outcome of the suitability



test for the individual investor, their specific sustainability preferences, and the investment advisor's product range. There can be differences as to which types of investment products typically are offered to retail investors through advice depending on the type of service and relationship with the particular client (e.g. depending on whether the client is eligible for private banking services). Data from the six largest full-service banks in Denmark for 2024 shows investors investing through portfolio management (where the bank manages the investment) hold a larger share of funds relative to investors investing through investment advice or execution services. Generally, the latter group holds a larger share of single stocks.

From a more legal and detailed perspective, retail investors in general are often unable to invest in corporate and financial bonds – whether it is through execution services or through advice – due to uncertainty about the scope of the PRIIPs regulation. Ultimately, this limits retail investors' ability to help finance companies in the EU.

It is unclear whether bonds fall within the scope of PRIIPs, particularly bonds issued by non-financial issuers, and for that reason, the issuers choose not to produce a PRIIPs KID to avoid potentially unnecessary burdens. This then leads to reluctance from banks in offering such bonds to retail investors to avoid risks of non-compliance. Ultimately, the lack of clarity significantly limits the limits retail investors' ability to invest in most corporate bonds restricting their ability to diversify their portfolios. To address this issue, the PRIIPs regulation should be amended to explicitly exclude standard corporate and financial bonds from its scope, ensuring they remain accessible investment option for retail investors.

Q8a: 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

A8a: **A major barrier to investment.** When individuals do not fully understand how markets work or how to evaluate risk and return over time, they are more likely to shy away from investing altogether. This hesitancy is further amplified by an excessive regulatory focus on risk warnings, which, while well-intentioned, can come across as overly complex and intimidating to the average retail investor.

Q10: 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.*

A10: Yes, cultural factors and a tendency to rely on traditional savings methods also play a role. Historically, many Danes have had a strong preference for security and stability, often favoring bank deposits over investing in equities or funds. This cultural preference is further reinforced by Danes' fondness for mortgage loans and real estate investments, which have long been considered safe and sensible ways to build wealth—particularly given the tax advantages associated with real estate investments in Denmark.



At the same time, the taxation of securities investments in Denmark can be perceived as highly complex, with different tax rates, principles and special rules for various account types. This complexity can discourage new investors and contribute to the perception that a high level of expertise is required to invest in securities.

Altogether, these factors can lead to a certain hesitance to take the first steps into capital markets, especially if investing is seen as risky or difficult to navigate.

Q11: 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.

A11: Digital platforms and mobile applications undeniably play a very central role in shaping the investor journey, especially for younger investors. Many new investors are particularly pleased with the fully automated investment savings that can be set up to invest on your behalf monthly. It is therefore important that the regulatory environment leaves room for development in this area to continue to attract new, young investors.

In general, it is important that the rules leave flexibility for the investment firms to use different methods – digital or non-digital – of providing information and services as different customers may have different preferences, meaning it differs from customer-to-customer which way of communication that is best received. Furthermore, there should also be flexibility in terms of the purpose for which such representations are used – e.g. for educational purposes or to provide product information.

Digital platforms could support the investor journey more effectively if there were greater opportunities for a simplified investment advisory process. Customers give up during the advice process, and often it involves small amounts of money. We recommend that a simpler process be introduced regarding suitability assessment when dealing with investments in simple, well-diversified products. This should, of course, ensure that confidence in investing is not compromised. The issue also applies to non-digital investments.

Q12: 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.

A12: In Denmark, there is a fairly simple process for complaints. It is therefore not the process and the possibility of complaint that prevents people from investing. It should of course be easy to find the person responsible for complaints, and it should be cheap to have your complaint processed by, for example, complaints boards and similar authorities.

Q13: 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.



A13: Retail investor participation could be improved through the following measures:

1. Blueprint for Savings and Investments Accounts

The key to creating a better savings and investment culture, where a greater share of household savings is invested in the capital markets rather than held as bank deposits, is to create simpler and better tax schemes for retail investors, which will also simplify the investment process. Experiences from the Danish and Nordic markets demonstrate that savings and investments accounts (SIAs) can help unlock the investment potential of retail savings. The SIAs created in the Nordic countries play a part in fostering a stronger investor culture through simplification and tax incentives. Please see the attached Annex "Nordic financial sector input to a blueprint for Savings & Investments Accounts" for a detailed description of the lessons learned and key messages for a new SIA blueprint.

As the Nordic countries have successfully created SIAs within the current EU legislative framework, there is no need for additional legislation. Rather, a flexible blueprint at the EU-level for SIAs has the potential to boost investor participation across the Union. We therefore support the ongoing work of the European Commission in creating such a blueprint.

Based on our experience and best practice example from Denmark and the Nordics, the blueprint should be grounded in the following three principles:

1. Encouragement: Member States should be encouraged to introduce SIAs.
2. National design and implementation: The specific characteristics of SIA, including taxation, should be designed and implemented at the Member State level.
3. Best practices: Any specific features should be based on best practices, ensuring that no existing SIA becomes less favorable than it is today, as this would undermine the blueprint's purpose.

Furthermore, experience from the Nordic markets shows that a blueprint for SIAs should include the following six features to successfully boost investor participation and reach the full potential of the accounts:

1. No or a significantly high deposit limit:
Some member states have introduced SIAs with a deposit limit, restricting the account's use, while others do not have a limit. To ensure that SIAs will effectively transform household savings into productive investments, a deposit limit, if any, should be substantial.
2. Broad range of eligible assets:
Households are a diverse group of potential retail investors. To appeal to a wide range of households with varying risk profiles and investment objectives, SIAs should entail a broad selection of eligible assets, including, but not necessarily restricted to, listed shares and bonds, and all UCITS, ELTIFs, and retail AIFs.
3. No geographical restrictions:
Some existing SIAs have geographical restrictions aimed at directing investments towards European companies. However, there is significant home bias among European retail investors, meaning they largely invest in assets within their own country. Increasing retail investor participation



in the EU will thus automatically lead to more investments within the EU. Moreover, defining “European companies” could introduce unnecessary complexity and make the uptake of SIAs lower. To ensure the largest possible uptake, the SIAs should focus on creating the right incentives for Europeans to invest their savings, without any geographical restrictions.

4. No minimum holding period:
Retail investors vary in their investment time horizon. Some have long horizons of more than ten years, while others might invest for shorter periods. Retail investors with both long- and short-time horizons should be encouraged to invest their savings, with risk adjusted according to their time horizons.
5. Tax incentives and simple tax rules:
Complex tax rules discourage households from investing their savings. Therefore, tax rules for SIAs should be simple and easy to understand for inexperienced retail investors. Additionally, tax incentives – even modest ones – can encourage investment among households. Member states should therefore consider incorporating tax incentives to help ensure a large uptake of SIAs.
6. User-friendly tax reporting and transfer of an account from one service provider to another:
Tax reporting is often complex, which discourages retail investors. To attract inexperienced retail investors, SIAs should be user-friendly in terms of tax reporting. This can be achieved by either ensuring that tax declaration is easy for the account owners, e.g. by not having to declare transactions within the SIA, or by assigning the responsibility of tax reporting to the service providers of the SIAs. Furthermore, to ensure a competitive market among SIA providers, accountholders should be able to transfer their account from one service provider to another without suffering negative tax consequences.

2. Ensure access to a simple and digital advice regime for all retail investors supporting access to investment advice

It is essential to investor participation that the process of investing is kept as simple and accessible as possible, as new investors can be deterred by (the perception of) a lengthy, complex process involving many steps and many complicated products. To this end, investor participation can also be boosted by the opportunities of seeking investment advice in a simpler manner – which can be both through digital channels and/or through contact with an investment advisor.

When investors invest via investment advice, they are presented with a suitability test as stipulated in MiFID II, which in some cases can be complex for the investor and contain unnecessary information. Having a shorter and simpler suitability process can attract more investors to invest using advisory services. Creating more awareness and attraction towards seeking investment advice is particularly important to protect young, first-time investors, who are very likely to otherwise be drawn to less regulated markets and products through their presence on social media. Fostering a stronger investor culture across the EU in the long term will require a particular focus on both attracting and protecting younger investors. In the Retail Investment Package, a “suitability light”-regime has been proposed by the Commission in MiFID II art. 25, introducing a lighter assessment for well-diversified, simple products only available to independent advisors. To support access to advice for new investors and less wealthy investors as well as fostering



the development of more digital advisory services, the "suitability light" option should be available to all investment advisors and in portfolio management. If conducting a lighter suitability assessment only is available to independent advisors, many retail investors risk not benefiting from easy access to low-cost advice, and it will thus also hamper the effects on increasing retail investor participation.

3. Increasing retail investors' access to financing EU strategic priorities through AIFs

Establishing a unified framework for the marketing and passporting of Alternative Investment Funds (AIFs) to retail investors across EU member states.

The current marketing regime for AIFs to retail investors is subject to national autonomy. According to Article 43 (1) of the AIFM directive, Member States may impose stricter requirements on the AIFM or the AIF than those applicable to AIFs marketed to professionals in their territory.

Due to this national autonomy, there is a lack of harmonization across member states regarding the marketing and passporting of AIFs to retail investors. This creates barriers between member states and results in differing requirements from one member state to another. These barriers and national requirements not only hinder the common goal of a Savings & Investments Union within the EU but also impede the flow of capital to sectors and businesses in need of funding to reach European strategic priorities.

By establishing common standards and creating a mutual passporting regime for marketing AIFs to retail investors, the regulators would not only ensure a greater level of harmonization of requirements, making it more attractive for fund managers to create new funds due to a larger customer base, but also increase the flow of capital to sectors and businesses traditionally funded by AIFs rather than UCITS.

4. Increasing the universe of retail investors through more flexibility in client categories

Retail investors should have increased flexibility to opt-up to professional category, as in accordance with MiFID II, to have access to services and products. This would not only help the investors reach their long-term investment goals, but also create more retail investment, as is in line with the EU's focus on a strong Savings and Investments Union. Allowing for more flexibility for some retail investors to opt-up to the professional client category unlocks investment potential allowing sophisticated investors to invest into other asset classes, like professional investors. The advantages for clients to opt-up include greater investment opportunities as they get access to a wider range of financial instruments. The benefit could also be that they get access to exclusive research, insights and market analysis, which may not be available to retail clients.

Under the MiFID II framework, retail clients seeking to upgrade to professional status must meet specific criteria, and they are overly restrictive and not calibrated to fit the right clients. The specific criteria outlined in Annex II of MiFID II and investment firms are required to conduct an adequate assessment of the clients' experience and knowledge to ensure they can make informed investment decisions and understand the associated risks. Revisiting the criteria for retail clients to opting up to professional should involve: Making the criteria more practical and easier to apply to a wider range of sophisticated retail clients (opposite to the current criteria of required transactions, turnover and own funds); including a requirement solely based on knowledge and experience or knowledge and experi-



ence in combination with a requirement on own funds; and ensuring that necessary experience should be different for each type of financial product (derivatives, corporate bonds etc.).

A key policy-driven measure to improve retail investors' participation would be to ensure broader and more practical access to standard fixed-income products, in particular corporate and financials bonds. As explained in our response to question 7, legal uncertainty around PRIIPs regulation has significantly limited the availability of this asset class to retail investors. Improving their access to standard bonds could give retail investors more opportunity to diversify their portfolios beyond equities and funds, which today dominate in many retail investors portfolios. Bonds often appeal to more risk-conscious or income-oriented savers due to their relatively stable and predictable return profile.

Increasing retail investors' access to corporate and financial bonds would also support the broader goal of mobilizing private savers for financing of European companies.

Overall, addressing regulatory barriers to access corporate and financial bonds would unlock a valuable and underutilized asset segment and help retail investors engage in the broader capital market.

Q14a: 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 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)

A14a: Yes, young investors often show more interest in speculative and volatile markets, such as cryptocurrencies, compared to more traditional investment vehicles like funds or bonds. Several factors contribute to this trend. First, younger investors may have a higher risk tolerance and a longer investment horizon, making them more willing to explore opportunities that promise higher (though riskier) returns. Second, the digital and easily accessible nature of cryptocurrency trading platforms appeals to younger investors who are more comfortable with technology and online solutions. Finally, social media and online communities often amplify the appeal of speculative assets, creating a sense of excitement and community engagement that can be lacking in more traditional investment markets. It is therefore important that regulation supports access to low-cost non-complex digital advisory solutions for all types of investment advice.

Q15a: MiFID II disclosure requirements aim to provide transparency and support informed investment decisions. In practice, do low-cost investors 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 your reasoning and provide practical examples, or evidence drawn from experience, where available

A15a: In general, MiFID II disclosure requirements should be simplified. At the current state, investors are likely to be overwhelmed by information overload, which is counterproductive to the aim of providing transparent and informative information. Investors generally benefit from simple and clear information, which helps them make their investment decisions rather than presenting too much information that creates confusion.

Q16a: 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.

A16a: Generally, many retail investors are more concerned with simple metrics such as the costs of investing and the expected returns, thus, even with its limited scope, the PRIIPs KID might still provide too much information for some investors. To this end, it is important to ensure alignment between cost and charges disclosures in PRIIPs KID and in MiFID II, and that the costs presented in the KID are not subject to potential misunderstandings. This is the case with the transaction costs shown in KID, which in some cases can appear artificially high due to the technical issue of the floor under transaction costs. The artificially high transaction costs then risk discouraging some investors from investing.

Therefore, the floor on a minimum of explicit transaction cost in PRIIPs KID should be deleted (ESMA's Regulatory Technical Standard 4.8.3 to Delegated Regulation (EU) 2017/653 of 8 March 2017). The total transaction cost must not be lower than the direct transaction cost according to the PRIIPs regulation. This means that the entire income from subscriptions or redemptions in some cases cannot be offset against the total transactions cost.

"Slippage" is also difficult to understand and should be considered deleted.

Q18: 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?**

A18: As mentioned in A15a, investors benefit most from simple disclosures. The very detailed information on the itemized breakdown of cost over several different periods is too much information for most retail clients and they drown in information overload.

For ex-ante and ex-post disclosure on cost and charges to the client we recommend that all costs are disclosed as an aggregated amount and percentages. The distribution cost could also be disclosed separately as an amount and percentages.

It is also important to ensure alignment between MiFID II and PRIIPs with regards to cost components not to confuse the retail investor with regards to correct costs.



Q19: 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.

A19: This question is partially specific to the investment firms and our members. However, it is our general assumption that some service providers use layering of information. In general, the information that should be included in the first layer should be presented in a clear and comprehensive manner for the investors, containing more general information about the product with the purpose of informing and educating investors about the product or service in question. It is our members' experience that the most important information in that regard for most retail investors is the total costs, which would therefore be appropriate – and likely helpful for investors – to present in the first layer.

Q20: 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)

A20: This does not seem to have a significant impact on the customers, if they already have access to the information online. However, online access must be supplemented by a yearly report.

Q21a: 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)

A21a: No, in general it is ignored by the customers. In addition, there is a risk that customers make too quick decisions based on the information.

Q22: 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 all

A22: Before investing, investors will need a bank or another intermediary to invest through. A customer due diligence process will be performed when being onboarded as a customer. Thus, depending on if the customer is already an existing or new customer, the due diligence might already have been performed. In that sense, Know Your Customer (KYC) measures do not generally constitute a barrier for retail clients who wish to begin investing, since they in many cases have already been through this process, or the process is the same as applied when becoming a private client at a bank or investment platform. This means that, like all other private clients, retail investors must be onboarded as a business relationship. This process includes the standard KYC procedures, such as the obligation for financial institutions to identify the origin of the funds which the client intends to invest.

Depending on the investment type there might be an additional customer due diligence process before the investment is made possible. Investing directly in shares or bonds does not trigger an additional due diligence, but investing in for instance a UCITS can in some countries trigger another customer due diligence. How this is handled can vary. However, the collection of additional customer due diligence information does not bring any added value in securing AML or CTF as it will only trigger the entities looking at the same transaction (the investment).

A challenge exists when needing to share information (collected due to AML requirements) between for instance the bank, where the investor is a customer, and the UCITS (or its management company) due to GDPR or other barriers. EFAMA has provided a response to the consultation on RTS under art. 28(1) AMLR on CDD that describes the investment process and outlines how the rules should be understood when AMLR enters into force: Article 28 of AMLR addresses simplified measures for entities with low inherent risk. RTS Article 21 that unfolds AMLR art. 28 acknowledges that Collective Investment Undertakings (CIUs) in most instances does not have direct access to information about the underlying investors when distribution occurs through intermediaries, such as banks and brokers. EFAMA has interpreted the RTS article 21 and argues that the intermediary is to be considered the customer of the Investment Fund Manager (IFM), UCITS, or Alternative Investment Fund (AIF). Hence, if the EFAMA interpretation is to be followed, this means that CIUs can focus their customer due diligence (CDD) procedures on the intermediaries, who are already subject to full AML obligations. If this will be the case, the new AMLR regime will not pose a restriction towards retail investors in terms of AML-requirements such as the IFM, UCITS or AIF will be able to rely on CDD information on the underlying investors, provided by the bank or broker.

Q23: Do questions and measures on customer due diligence in accordance with AML/CTF 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.

A23: With regards to Question 23, we refer to the comments provided above. The onboarding process for retail investors who wish to begin investing does not differ significantly from the onboarding of other private clients. Retail investors must be established as a business relationship with the bank, which includes the standard



KYC procedures.

Q24: 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.*

A24: National tax regimes can create significant barriers to offering investment services and attracting retail investors on a cross-border basis. Differences in how investment income, capital gains, and dividends are taxed across countries can make it more complex and less appealing for providers to engage in cross-border investment activity. Overall, the differences and complexity of national tax regimes can hinder cross-border investment and limit the development of a more integrated retail investment market within the EU.

Q25: 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.*

A25: Tax-related issues can discourage retail investors from investing in products issued in another Member State. Differences in tax treatment create uncertainty about the overall tax burden of cross-border investments compared to domestic ones. Withholding taxes and the absence of streamlined reclaim processes can reduce the attractiveness of foreign investments, making retail investors more likely to favor domestic products that are easier to understand and manage from a tax perspective.

Q28: 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.*

A28: When drafting contracts and other legal documents, the business will not only involve legal function but also involve relevant colleagues with expertise in marketing, layout, customer journey, etc.

Q29: 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.*

A29: The customers understand the necessity of updating information before trading. However, in line with our answers to question 11, it should be considered to open for a more simplified process. Yet, there may be situations where it is difficult to get customers under a discretionary portfolio management agreement to respond to communication from the investment firm.

Q31: 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.*



A31: As mentioned in A13, simplifying the suitability assessment – and thus the inherent information collection process – would be impactful in simplifying the investment process for investors using investment advisory services (non-independent or independent) or portfolio management services. Since the simplified or “light” suitability assessment would be available when investors invest in simple, well-diversified products, it would not compromise the investor protection for them.

Moreover, with regards to sustainability, there is also an opportunity to simplify the information collection process to assess the client's sustainability preferences in accordance with MiFID II requirements. Most retail clients have preferences about sustainable investing. But the clients are often not familiar with the terms and definitions investment firms need to ask according to the delegated regulation MiFID II. The dialogue about the sustainability preferences needs to be clear and understandable for the client to make informed investor decisions. Just as there is flexibility for the investment firms to tailor questions to and cover the clients' risk profile, there should be full flexibility for the investment firm to tailor questions to assess clients' sustainability preferences. The rules should therefore not require investment firms to ask questions specifically referring to rules, definitions or terminology in the Taxonomy Regulation and/or SFDR, since these are most often too complicated for most clients. Being asked too complex questions on sustainability then risks confusing the investor, who will find the investment process complex, and/or the client might choose to disregard sustainability concerns altogether when they invest again to avoid confusion.

Keeping the conversation around sustainability flexible and simple would give the best possible framework to support individual clients and the sustainability agenda in general through investment advisory services and steer investments towards the green transition.

Q32: 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.

A32: The ESG concept applied in MiFID and IDD (taxonomy alignment, sustainable investment and PAI) are far too complex concepts for retail clients to understand, and matching their sustainability preferences against the complicated disclosures and unclear proxy categories of the SFDR has proven very difficult. In addition, the current market reality is that there is a low or moderate level of taxonomy alignment, sustainable investments and understanding of PAI.

We, therefore, believe that in conjunction with a revision of the SFDR, the sustainability preferences (and product governance guidelines) should be recalibrated to better reflect the ESG needs and sustainability preferences of retail investors, and at the same time allow enough flexibility for financial advisors to design well-diversified portfolios. In this regard we propose that much more flexibility is left for the investment firm on how to engage with the client to determine their sustainability preferences. Just as discretion is left to the investment firm in assessing the clients risk preferences, which very soundly have priority in the rules over sustainability preferences, they should also have discretion in how to ask the clients about sustainability. Different client groups have different needs and levels of sustainability knowledge, and the rules should accommodate these differences just



as they do with risk profiles. The same discretion should extend to mapping between the products and the preferences. This approach would allow the industry to evolve client question frameworks and the mapping of products as clients' understanding of sustainability related terms and concepts evolve and as data accessibility and quality as well as product offerings within sustainability evolve.

If full flexibility in determining the client sustainability preference assessment will not be accommodated, we strongly urge that the mandatory questions about taxonomy alignment, sustainable investment and PAI should be made *voluntary* for as long as the Omnibus 1 and SFDR-revision is active. The proposed and upcoming changes to the taxonomy, PAI and DNSH -test can lead to confusion and uncertainty for both the advisor and client, and while the outcome of the revision is unknown and the Omnibus simplification process is ongoing, it will be beneficial for all parties to have a voluntary scheme.

Q34: 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.

A34: As mentioned, the conversation around sustainability can be seen as too complex, which can be counterproductive to helping the client meaningfully describing and defining their sustainability preferences. This can ultimately lead them to disregarding sustainability concerns.

Therefore, a simplified process is necessary to attract customers to invest with a focus on sustainability or ESG. Some of our members experience that the customers primarily focus on "environment" (E) which might be because it is difficult for them to understand what is behind the "S" and "G".

Going forward, it is important that the dialogue with the customer also focuses on the potential of investing in companies that are on a transition towards a more sustainable future.

Q35a: 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.

A35a: Our members are under the impression that the suitability reports give value to customers as they state the customer's investment profile and give a specific investment recommendation.

Q35c: 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.

A35c: The intention of this question is unclear. However, it is the intention to provide concise, clear and valuable information to the customers. Yet, it is a complex area which at times makes it difficult to communicate as customer friendly as we would like.



Q36a: 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).

A36a: It is an effective safeguard. The appropriateness assessment should not include further issues. As it relates to individual transactions, it is not relevant to include an assessment of the customer's risk willingness and ability to bear loss, which are closer linked to a portfolio view than individual transactions.

Q37: 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.*

A37: It is unclear which products are being referred to.

Q38: 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.*

A38: It can be both depending on the specific situation and what the customer asks for. Educational tools are typically provided online (not necessarily only limited to the onboarding process) with the sole purpose of improving financial literacy.

Q39a: 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.*

A39a: Generally, the appropriateness test should be kept as simple as possible while still protecting the investors. Further complicating the investment process through the appropriateness test risks creating barriers for retail investors. Therefore, including assessments of the client's risk profile and ability to bear loss, as is part of the European Commission's proposal for a new Retail Investment Package, must be avoided. This will complicate the process for the investor and such assessments are not meaningful in context of an appropriateness test, which most often pertains to a single transaction, since risk appetite and ability to bear loss require an assessment of the client's full portfolio. In particular, the appropriateness test is applied to investors trading who wish to trade complex products independently. As such, these investors will likely typically have more knowledge and experience with investments than first-time investors or many other retail investors. It is necessary to find a balance between ensuring that these more experienced and sophisticated retail investors are protected through relevant assessments of their knowledge and experience, but at the same time, ensuring that they are not met with too many requirements/tests, which they may find demeaning and unnecessary.



Q41: 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.*

A41: Investor protection is crucial, and the legal framework is essential in creating the right set of rules, but the rules must generally still allow the banks and investment firms flexibility to tailor the investment experience and their investment products to their investors.

The current regulatory framework stipulates a long process of tests – both within the investment firm (i.e. product governance assessments, quality enhancing services requirements, etc.) – and directly towards the investor (suitability test, appropriateness test, sustainability preferences, AML/CTF due diligence, etc.). These tests all stand to be possibly expanded and supplemented with the ongoing discussions on RIS.

Specifically in terms of risks, the regulatory framework currently requires that investors are presented with “risk warnings” at many stages throughout the investment process. When individuals do not fully understand how markets work or how to evaluate risk and return over time, they are more likely to shy away from investing altogether. This hesitancy is further amplified by the regulatory focus on risk warnings, which can come across as overly complex and intimidating to the average retail investor. Rather than informing, such disclosures often deter participation by emphasizing potential losses without sufficient context on long-term benefits.

