

Fund firms demand EU retail strategy delay

Measures in retail investment strategy due to come into force in 2025

By Robert Van Egghen | 6 June 2023

Asset managers are calling for the delay of new measures designed to increase retail investor participation in the EU.

A joint letter from EU financial services trade associations, including the European Fund and Asset Management Association, Insurance Europe, the European Banking Federation and the European Association of Public Banks, says Brussels should postpone the implementation of its new retail investment strategy.

The cross-industry statement, seen by *Ignites Europe*, warns that the proposals could end up decreasing retail investor participation in the EU.

The European Commission last month published its retail investment strategy, which includes plans to introduce new value for money benchmarks for funds and changes to product disclosure rules.

The commission is also proposing to introduce a targeted ban on the payment of inducements for execution-only transactions.

The measures are expected to come into force in 2025. However, this timeline could be complicated by the European Parliament elections in June 2024, which potentially leaves EU policymakers with just a year to sign off on the changes.

The joint statement *gnites Europe*, says the timeline is "unfeasible" and will "make it impossible for the industry to comply".

"The industry needs adequate time to apply any new requirements in the millions of diverging contractual relationships it holds with retail investors and customers [...] It can already be predicted that by then not even the level two specifications will have been published."

Brussels has proposed a number of changes to product disclosure rules, including a standardised presentation of information on costs and charges and requiring managers to display risk for warnings for "particularly risky" products and provide consumers with an annual statement.

The lobby groups say "the significant number of new processes, policies, organisational requirements, technical disclosures and compliance obligations introduced by the proposals deviates from the stated goals of reducing the information overload on clients and making access to financial services simpler".

"The overwhelming volume of requirements adds complexities that are highly likely to discourage consumer engagement, as the laudable ambition of turning European depositors into investors would be impeded by an even longer, more complex and more burdensome investment process," says the letter.

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the 'cheapest' product over others that could potentially offer them greater value [which] would be, in fact, contrary to the client's best interest".

Consumer organisations have given a lukewarm reception to the retail investment strategy.

Better Finance says the strategy fails to ensure consistency across retail investor protection rules, which "leaves the conflicts of interest associated with portfolio managers receiving mandates from retail investors for [insurance-based investment products] unresolved".

"As a result, there remains a significant opportunity for regulatory arbitrage to the detriment of [insurance-based investment products] investors," says Better Finance.

The Brussels-based consumer advocacy organisation adds that it doubts the "effectiveness in enforcing existing regulations that prohibit undue costs" of the commission's proposal for funds to be measured against value for money benchmarks.

But EU policymakers insist that the reforms proposed in the strategy will encourage savers to invest more in capital markets and ensure that they are treated fairly by financial institutions.

Mairead McGuinness, EU commissioner for financial services, says: "Europeans are good savers but less likely to invest and this retail strategy aims to unlock the investment potential of savings.

"The best way to do this is to ensure they are better informed, get a fairer deal and are better able to meet their long-term financial objectives."

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The lobby groups also say that while the commission may have rowed back on its initial aspiration to introduce a full ban on the payment of inducements, the measures proposed would "still have major disruptive consequences for the European financial sector and consumer' access to investment and insurance protection".

The retail investment strategy would also require non-independent advisers to carry out a "best interest" assessment of a retail investor's needs.

The letter says the "disproportionate" focus on costs in the strategy "may lead clients to prioritise