Paris, December 2023

RETAIL INVESTMENT STRATEGY

PARIS EUROPLACE POSITION PAPER

The publication on 24th May by the European Commission (EC) of the Retail Investment Strategy (RIS) undoubtedly marks a key development of the Capital Markets Union (CMU) project. **Paris Europlace shares the EC intention to increase retail investors' participation in capital markets and to mobilize private capital to better reach EU objectives**. Developing a vibrant retail investment market enhancing investors' trust and confidence is essential to make the CMU a success and to finance the transition of the European economy towards a more sustainable model. In this respect, the recognition of the diversity of retail investors, for instance, by extending the professional clients "opt in"[1] regulated by MiFID, the focus on financial literacy or the regulation of influencers are crucial steps leading to this goal.

However, **we regret the overemphasis of the RIS on costs** which underpins several of the EC proposals. While we are carefully considering the wide range of proposed measures, notably their impacts on retail investors when accessing investment products, **we are very concerned as some of the proposals are very far reaching and could be potentially disruptive for our continental distribution model. The commission-based model ensures in particular retail investors to have access to a wide network of banking services and branches, key to ensure financial inclusion. To illustrate this,** the average number of inhabitants covered per bank branch in the EU27 is 3,229 whereas in **the Netherlands, which banned inducements, it amounts to 24,230[2].** And this without necessarily helping retail investors nor encouraging them to invest in capital markets and finance the European Union (EU) real economy and the green transition.

In addition, **the consequences of the measures as proposed by the EC would go against the very aim of the EU Strategic Autonomy agenda**, as the real winners of such measures would mainly be large non-EU players which have already gained significant market shares in the European market. Then, **this questions the ability for Europe to finance its economy and the climate transition along with the EU autonomy in the event of a crisis**. The past 30 years have shown repeatedly that crises always have the consequence of shifting financing capacity from Europe back to the non-EU headquarters of large, third-country financial players operating in the EU.

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[1] The RIS excludes in theory professional clients from its scope. However, it should be made clearer in transparency provisions on costs as well as in marketing rules, that RIS measures do not apply to this category of clients.

[2] Source: EBF.

Against this background, Paris Europlace would like to recall that **the current predominant distribution model in the EU ensures both access to tailored and efficient advice to all retail investors along with a wide range of choice in terms of products and services** (i). In this respect, the disruptive consequences mentioned above are linked to the current proposal on retrocessions, Value for Money, and best interest test (ii). However, we recognize that **some other measures of the package are going in the right direction,** although they may deserve some streamlining and improvement (iii).

I. The current EU distribution model provides retail investors with access to tailored and efficient advice on a wide range of products and services.

1.1. Access to quality advice

Along with providing access to tailored and efficient advice, the **commission-based model, which is predominant in continental Europe, is also well suited to grant such an access to all retail investors, regardless of their level of wealth and financial literacy**, over time and irrespective of their location (in big cities and small towns). Conversely, with the fee-based model, the access to such quality advice is limited to the wealthiest investors. **In both the UK and the Netherlands**, where a ban on inducements has been adopted, **there is objective evidence of a lack of quality advice for non-wealthy investors**. In this respect, in December 2020, the UK Financial Conduct Authority (FCA) noted that *"target* [*to advice*] *customers remain largely wealthier consumers [and that] the average advised customer has over £150,000 of assets under advice"* [3]. The FCA made also clear that many UK investors should invest more and be properly advised to do so[4].

Access for wealthy and more modest investors

Through **a mutualisation of costs amongst wealthier and less wealthy individuals**, the commission-based model has indeed the benefit of providing advice of the same quality to all individuals wishing to invest or enter capital markets.

Mutualisation also occurs over time – the client pays for a permanent access to an advisor - which is proportionate to its effective investment. In commissions-based model, an advisor can serve a client for a cost exceeding the inducements received from its current investments and lose money over years, because the advisor expects that he/she will earn an income over time in average from all his/her clients. On the contrary, in fees-based model, clients pay a bill

[3] See Financial Conduct Authority, Evaluation of the Impact of the Retail Distribution Review and the Financial Advice Market Review, December 2020

[4] "Many consumers are holding their money in cash rather than investing it, so are missing the potential opportunity to make their money work better for them in the longer term. Many consumers do not seek, or receive, the sort of help with their finances that would equip them to make better investment decisions.;" "Many consumers would benefit from receiving support to help them make investment decisions."

fees, even if they decide not to invest. Even if they decide to invest, clients need to have a minimum amount effectively invested to amortize the cost of advice...

In addition, **solutions advised by financial advisors remunerated via commission-based model are cheaper** as they often benefit from economies of scale linked to quite standardized solutions and the optimisation of operational costs resulting from an integrated manufacturing/distribution chain.

Access to advice over time

In addition, it is important to bear in mind that **the services related to the advice do not stop at the time of the execution of the transaction**. Distribution and advice include ongoing costs, as distributors are bound by a series of obligations or best practices, such as testing over time the appropriateness or adequacy of a product against clients' profile, as market conditions change; alerting their clients when products are losing value above certain thresholds; updating their KYC documents on a regular basis; sending them regular information or reports… All these obligations have a cost.

1.2. Access to a wide range of products and services

As opposed to what is indicated in the EC Impact Assessment, the EU commission-based distribution model gives access retail investors to a wide range of diversified products.

First, **retail investors have increasing access to "low-cost" passive funds in countries where inducements prevail, compared with countries where the remuneration of advisors is based on fees.**

A good case in point is the comparison between the German and the Dutch markets. According to the study that was conducted by Kantar on behalf of the EC, with a penetration rate of 40% compared to 16% among households investing in at least one financial product, ETFs are more common in Germany than in the Netherlands where commissions have been banned for around ten years. On the other hand, poorly regulated and risky products, such as crypto assets, are very successful in the latter (with a penetration rate of 21%), unlike other Western or Northern European Member States[5].

Second, **the average level of fees paid by retail investors in Europe is decreasing, for both actively and passively managed products**.

According to a recent study by ESMA[6], fund costs, including ongoing and one-off fees, have declined. In particular, if we look at the ongoing costs for equity UCITS, they have experienced a 6.4% decline, going from 1.72% in the period between 2008 and 2017 to 1.61% in the period

[5]Kantar final report on Disclosure, inducements, and suitability rules for retail investors study – FISMA-, p63, Figure 5. "The types of investment products held by persons who state having at least one investment product »

[6] ESMA Market Report, Costs and Performance of EU retail Investment Products 2023, 30 January 2023

between 2012 and 2021. By the end of 2021, investors could then, on average, expect to pay 6.4% less in terms of ongoing costs for equity UCITS than in 2017, despite an inflation of 8,9% in the EU over the same 2017-2021 period (source Eurostat).

Third, **the current model of distribution ensures access to innovative products**, such as guaranteed structured products, thematic funds (strategic autonomy, climate change, hydrogen fostering, aging of population, etc.). For instance, thematic funds are benefiting from a growing success amongst retail investors, and can be more expensive than other financial products, as they imply additional costs in terms of research, selection of issuers, etc.

Applying a pure cost-centric approach to these types of products, without taking into account other qualitative criteria, would put them at risk. This would also go against the broader objective of financing the European real economy, its strategic autonomy along with the digital and green transitions.

II. EC proposals on Inducements, Value for Money and Best interest tests would put at risk the EU distribution model.

2.1 Inducements

The Commission proposes a ban on inducements for products that are sold in execution only or without any advice. However, this would in practice amount to a full ban on inducements.

The commission-based model corresponds to an all-included-commissions model. As already mentioned above, these commissions remunerate all distribution costs that come from:

- **Various regulatory obligations which relate to the marketing and distribution of financial products**, particularly burdensome for retail clients: all specific information duty over the life of investments (appropriateness and suitability tests, various reporting obligations, loss alerts, control, and compliance obligations…).

- **A permanent access to a range of services varying from one investor to another**, usually including a permanent access to an advisor, with the possibility for many retail clients of universal banks to use a combination of both execution-only and advisory services (e.g. the client initially invests through advice, and later decides to invest more in the same products on their own).

The costs of all these services are embedded in the costs of the products, often as a percentage, contrary to a fee-based model, where each service is separately paid by the clients. In addition, automation and standardization of processes increase efficiency and economies of scale particularly in integrated distribution chain from the manufacturer to the distributors, when all stakeholders (manufacturers, custodian, brokers, and sales/advisors) belong to the same group.

Therefore, **the proposed "partial" ban on "execution-only commissions" would be like a full ban on inducements**, as it would essentially act as a complete ban of legitimate third-party payments in many situations. And **this by disregarding that commissions do not just pay for advice but are a valid and legitimate compensation for distribution services and costs incurred by distributors.**

This commission-based model is also the most relevant model for most EU retail clients, since most of them are reluctant to pay upfront fees required by the fee-based model.

As already mentioned, (see part 1.1.)**,** the UK example has indeed shown that banning inducement can result in an investment and advice gap, as it led investment firms to mainly focus on wealthy clients with a large volume of transactions, thus abandoning less-wealthy clients who consequently will never access sophisticated products with attractive returns.

It is also noteworthy that, as reflected by the 21st rank of the Netherlands (Q12 – Eurobarometer *survey monitoring the level of financial literacy in the EU,* 2023*)*[7]*,* **a ban on inducements does not give clients more confidence in quality advice**.

Against this background, the provisions aiming at banning – even partially - inducements should hence be removed.

In any case, it should be allowed for two entities to agree on sharing the remuneration relating to a same transaction which pays for the provision of the service of access to advice offered by one entity and the service of RTO provided by the other entity, in the context of the global solution they offer to the client. For example, a client might be able to receive advice from an advisor and have his or her transaction executed on a platform. In such instance, it should be possible for an advisor and a platform to agree on splitting the remuneration they received for these services in relation to that transaction. This would ensure a level playing field between market players that provide their services as advisors in the context of open architecture and market players that provide their services as tied agents in the context of more closed architecture.

Eventually, the 3-year review clause proposed by the EC is far too short. We would rather recommend removing it, or at least expanding it to 5 years after the transposition of the directive (and not only the entry into force as currently proposed).

2.2 Value for Money

We support the principle of implementing a Value for Money (VFM) scheme on financial products that are distributed to EU retail clients.

However, the current European Commission proposal on VFM raises several serious concerns:

[7] *https://europa.eu/eurobarometer/surveys/detail/2953*

- **This proposal can be assimilated to price regulation**. It raises a problem of principle (free competition must prevail), but it would also standardize and reduce the diversity of products and would deter financial innovation at a time when channeling savings towards the financing of the EU economy and the energy transition is a strategic issue.

- **This very cost-centric proposal focuses on the sole product's quantitative features** (analysis of costs and charges). It prevents promoting other qualitative aspects of the product such as guarantee, ESG characteristics, liquidity aspects, protection of the capital, diversification of the client's portfolio, embedded services, or other aspects such as the rating of the banking counterparty for structured products. These features bring value and are meant to meet clients' needs. Therefore, they should be factored in when assessing the value of a financial product. Taking only costs into account will also shy away retail investors from more sophisticated products, such as venture capital or private equity (VC/PE) funds and be counterproductive with regards the Commission's objective to encourage the participation of retail investors to capital markets and to finance European companies along with providing them with higher performance and more value.

- **Mandating ESMA, EIOPA or any other regulator to build benchmarks and to establish comparison criteria between funds or other financial products is not appropriate**:

  - The heterogeneity of products & underlying (like real estate, commodities, forex...), taxation regimes and distribution channels in Europe, features and embedded services - which is not limited to Europe but even at each Member State level - cannot be captured by a series of benchmarks.

  - In addition, their calibration will be very complex. Indeed:

  - Too much granularity amounts to duplicate a pricing process and would not be practicable for local or narrow asset classes like real estate of private equity: some markets, such as the venture capital and private equity market, are not sufficiently developed at this stage to build pertinent benchmarks (in the case of VC/PE funds, economic cycles would have to be considered).

  - Not enough granularity would progressively entail a standardization of financial products converging toward the benchmark and therefore less investment opportunities. How considering costs for funds which raise less capital than expected (and whose costs are fixed), a partial guarantee, stewardship practices ….

Last but not least, this process would request a huge collection of data, very costly, requiring a lot of time for a very limited benefit. **Any regulatory change should preferably consider the current obligations to avoid an excessive increase in operational complexity and costs, while ensuring that new obligations bring a real value to final clients**. It is important to remember that decreasing complexity and alleviating some of the burdens of existing, or irrelevant contemplated rules, are to the benefit of final investors.

We hence recommend the following framework:

1. **A better reliance and enforcement of existing product governance rules (POG) which might need in some instances better convergence of supervision under ESAs**.

   Indeed, the existing regulatory framework (MiFID or IDD…) already includes numerous obligations applying to both manufacturers and distributors. A first step should be to ensure that these rules are fully and consistently applied across the EU.

   For instance:

   - **Product manufacturers** must ensure that the **charging structure of a product is compatible with needs, objectives, and characteristics of the target market**, and does not undermine its return expectations.
   - **Product distributors**, from their side, **must perform similar diligence** regarding the compatibility between the financial product and the identified target market, including by requiring from manufacturers any additional information that are needed to fully understand the product they intend to recommend or sell.
   - Discussions between manufacturers and distributors on the level of inducement paid by the first to the latter already take place and consider the asset class, the characteristics and total cost of ownerships of products.
   - **They are subject to rules preventing potential conflicts of interest** to ensure that the distribution (advisory services or investment solution building) is not driven by the level of inducements are already managed (remuneration rules, criteria used to select products…).
   - Due diligence performed by the distributors when referencing products: quality of the issuer, guarantor, asset management, engagements, ESG value…

2. **A national and well targeted implementation of the VFM test as part of the POG.**

   - In complement to the above, a second step would be to **elaborate a clear methodology of the VFM that would apply to the whole value chain (including manufactures, insurers, and distributors).**

   - **Manufacturers (including asset managers, insurers, and structured products manufacturers) and distributors** referencing financial products in retail offer for retail clients, **should be able to rely on their own internal review**s, and **upon request they should provide their national competent authority** with their methodology and checks. If relevant, a third party could be appointed by market participants to help them aggregate data for comparison. However, this third party should remain an anchor in the VFM assessment without dictating the industry and without expecting to cover all products available.

- The assessment of VFM should apply to the whole value chain. **However, an explicit distinction should be made between the VFM test performed by manufacturers and the distributors** to avoid duplicative and costly processes of no value for end-clients.
    - **A manufacturer VFM test** would be a detailed pricing process, considering all relevant costs and including notably a comparison with a market reference, taking into account the asset class, **the level of risk and volatility**, the nature of the financial products **as well as on qualitative aspects like features.**
    - **A distributor VFM test should not reiterate the manufacturer VFM test.** It would include at least an assessment of the reasonable level of costs charged to clients for a list of services made available to end-clients. As each embedded service included in the distribution costs are not quantifiable per se, and as their value may vary from one client to another, the distributor should clearly communicate this list of services, for formal client's approvals. Their total cost should be communicated on an annual basis. It could include other checks to assess the global level of costs and net performance. In such case, the distributor would be able to request all necessary information from the manufacturer.

- **The VFM test should not be included in the dialogue with retail clients**, as the client's journey should be kept as clear and simple as possible.

- **It should only apply to all PRIIPs KID financial products while excluding listed optional investment products, hedging products**, **or products for which VFM is not relevant.**

- **These VFM tests would be regularly reviewed** as part of the POG and communicated upon request to national competent authorities.

- **Based on the VFM assessment, both manufacturers and distributors would have to take corrective measures for products that would not pass the test.** However, the obligation to take corrective measures on the VFM process should not apply to financial products no longer actively marketed.

3. **The principle of this framework should be defined as clearly as possible at Level 1,** to provide a real visibility on the methodologies that need to be implemented, with only its practical details described in level 2 and by national measures.

4. **These texts should be published in sufficient time before their entry into application**.

5. **The assessment of VFM for market**s which are not at this stage sufficiently developed **should be reconsidered** at the occasion of the review of the directive, **in 5 years' time**, when more data on such a market is available.

2.3 Best Interest Test

The best interest test brings legal uncertainty due to the introduction of unclear concepts ("cost efficient", "additional features", etc.), and adds burdensome and complex requirements, while denying the usefulness of VFM and the role of the advisor.

It is also excessively focused on costs, while the value delivered to the client does not only rely on costs and performances, but also on a large variety of other quantitative and qualitative characteristics, including the diverse services offered alongside the client's journey.

The assessment of VFM, combined with an adequate management of conflicts of interests, are sufficient to guarantee that:

- Products offered in this context are appropriate and qualify for an appropriate range of products.
- They are cost efficient regarding their features.
- The advisor acts in line with the best interest of the investor.

Consequently, the provisions on the best interest test should be removed.

III. Other measures of the package are going in the right direction although some improvements should be made.

3.1 Evolution of clients' classification under MIFID

The proposed review of the categorization of investors goes in the right direction, but it should be further enhanced. We warmly welcome the Commission's proposal to review the classification of clients under the MiFID review and we support the increased flexibility introduced in the fitness test, for instance through the addition of a fourth criterion. However, we would suggest further improvement on governance, information on costs, marketing and communications practices, professional requirements, suitability, and appropriateness.

The opt-in client classification should embrace the specificities of the products, like venture capital and private equity, as well as more options for retail clients to be eligible to the professional category. The number of transactions conducted by the client needs to be reduced for non-listed markets, as 10 over the previous four quarters is not realistic. It could be lowered to one for instance.

- **The size of the client's financial wealth should include the value of all financial instruments held directly and indirectly if the client is ready to provide this information. For instance, in France, households invest a large part of their savings in unit-linked life insurance products. These instruments, with banking savings, are included in the calculation of their financial wealth.**

- **Exceptional circumstances should be assimilated to the fulfillment of one criterion.** For instance, inheritance should be exempted from the calculation of the average size of the clients' financial instruments over the 3 previous years. In this context, the financial wealth of the client should be assessed at the time of the transaction.

- **We propose introducing an additional criterion on the "size of commitment**" (the €100,000 threshold, which defines what "sophisticated investors" is in the Article 6 of the EU VECA Regulation) which would be an alternative to criteria 1 and 2: if some clients may have acquired some experience in the relevant market as retail clients, first investments in a different asset class, for example for diversification purposes may remain difficult. Many distributors impose concentration limits on client investments in a single issuer or product type (typically no more than 10% in a single issuer). For example, an investment minimum of € 100 000 would imply a total portfolio level of € 1,000,000, which, we believe, should provide sufficient comfort as to the client's sophistication and overall net worth without requiring additional criteria.

3.2 <u>PRIIPs review needs a more holistic approach consistent with other instruments.</u>

We support the Commission's aim to improve the PRIIPs KID but would like to stress a few points and come later with suggestions.

- **We would recommend limiting changes and additions**, as the three pages format is already hard to meet. However, should more than 2 sentences for ESG products be added, we would then suggest expanding the limit of the three pages required by PRIIPS as more space will be required.

- **The proposed new section "Product at a glance" is not well balanced and will increase the length of the document that is already supposed to be a summary**. We are not supporting the current proposal and believe that the whole KID needs to be improved on cost disclosures, number of information and simplified content.

- **We believe that adding** the proposed new section **"How environmentally sustainable is this product?" is premature especially** as SFDR, and possibly MIFID and IDD may soon be reviewed. In any case **a section on ESG features of a product should articulate smoothly with other requirements and practices,** including MIFID, and IDD ESG clients' preferences which also include S & G features further to the E criteria**.**

- **The electronic format of the key information document needs to remain optional for clients**, as rightly specified in the RIS proposal, and should be manufactured by producers, like any other KID.

- **The interactive tools should remain optional** as currently suggested. It should also be considered as an additional added value service. We would not agree with any regulation prescribing which information can be shown or not, as such information should be in addition to the key information document (KID). If it is possible to reduce the KID, then this should be done for all products systematically.

- **RTS will need to determine, among others, the conditions for personalizing the information** to allow investors to simulate costs over a holding period that is different from the recommended holding period; we would be careful with this new obligation: further to its complexity and cost of implementation, it may not preserve an adequate client protection framework. A cost/benefit analysis should be first conducted with clients to also ensure they request a fixed cost for a service they may not use.

- **All new obligations are supposed to be specified by RTS**. Their implementation will require time and should not be enforceable before at least 6 months after the publication of the relevant RTS.

- **It should be clarified how long a KID should be kept available**. In any case, this requirement should not exceed 10 years after the first publication of the document. Moreover, it should be specified that the KID does not need to be kept available after a fund has been liquidated.

- **We suggest introducing a grandfathering clause in the revised regulation,** so that the new rules only apply to new PRIIPs. In other words, PRIIPs which are marketed at the time of entry into application of the revised regulation should not have to comply with the obligation to have a new KID produced according to the revised rules. Indeed, existing investors would feel puzzled if provided with a new version of a document they have become familiar with.

- **At last, the KID should better consider the specificities of products**. For instance, it means for VC/PE funds to consider specific characteristics like the use of carried interest, performance scenarios, the closed-ended nature of the funds and their holding period.

3.3 Transparency and communication marketing should be well calibrated to avoid burdensome costs while ensuring good understanding.

Paris Europlace welcomes some proposals made on transparency and communication marketing, and notably the inclusion of influencers in the regulation. These actors play an increasing role, notably towards the young generations, but there are not at all regulated. It is essential to make sure that they are properly supervised.

This said, the RIS proposal contains **numerous new requirements in terms of information and transparency that could be potentially burdensome for all actors.** EU lawmakers should not underestimate the effect that a legislation aiming at a reduction in costs might eventually create additional costs for consumers.

We would then recommend a better calibration of the transparency obligation aligned with the real needs of customer as well as processes avoiding duplication of controls and reporting.

To illustrate this:

- **Enhancement of the appropriateness test is bringing new costs** in this process which is much more relevant on the advisory process than on simple execution. It will become more burdensome for clients for an advantage that is not demonstrated. In addition, it may give clients the impression of receiving an advice and being protected while it is the opposite.

- Pursuant to the new article 24b (1) proposal, "the investment firm shall disclose the cumulative impact of such third-party payments, including any recurring third-party payments, on the net return over the holding period as mentioned in the preceding subparagraph". The purpose of the third-party payments and their impact on the net return shall be explained in a standardized way and in a understandable language for an average retail client. **However, according to a Kantar study published in August 2022, advisors also stress that consumers care more about the total cost of the product rather than how costs are shared between the distributor and the manufacturer. Therefore, there is no need to provide with details to customers who are not interested and already lost in the massive amounts of information they receive.**

- **The investment firms' new obligation to make annual reports to the firm's management body on the use of marketing communication and strategies** aimed at marketing practices (Article 24c (7)): internal control disposals, including a compliance report on all main issues, need to be communicated to the executive and supervisory body and even to the national supervisory authorities, which might duplicate for these regulated investment firms an existing obligation.

- **The recording period defined in Article 24c (7):** such records shall be kept for a period of 5 years or, where requested by the competent authority, for a period of 7 years. This exemption creates extra costs for cross border businesses.

In addition to the examples mentioned above, the practicality of some measures may be questionable: fees are not always possible to calculate prior to the fund marketing and not easily comparable from fund to fund. This may be true for mass-marketed products, such as mutual index-based, open-ended funds, but not necessarily applicable to long-term, closed-ended products. Indeed, these are products where the manager makes active investments in businesses – and where costs can vary depending on fund size, macroeconomic or sectoral conditions, or transactions structuring, and they are not easily calculated at the fund's onset. Then, we would recommend giving an assessment of such fees but not the exact amount for operational reasons.

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To conclude, **Paris Europlace is very keen to engage with the co-legislators to enhance the current European regulatory framework while making sure that the measures would not be disruptive and go against the very aim of ensuring more access to capital markets products for retail investors**. It is also essential to make sure that the RIS is going hand in hand with the overall objective of financing the EU transition towards a net-zero economy, while promoting the European Strategic Autonomy. To reach these goals, **the EU needs to preserve the variety of the actors and products while ensuring fair competition and fostering innovation**. This implies to depart itself from a pure "cost-centric" approach that would miss the target.

Attracting investors to capital markets requires a careful balance between **sufficient and clear client information**, and the **quality of products** offered **that meet clients' expectations** (real return prospects, reasonable costs, characteristics like ESG features, level of risk, diversification, short or long-term investment, etc.), as well as **the quality of associated services**: quality advice, decision support tools, custody… **Clients need to be delivered value.**

The diversity of customers and their needs are also part of the equation. Clients are different from one another in terms of financial education, capacity of investment, risk appetite / aversion. **Tax regulation is also an important driver of investments and widely differs from one country to another**; **cultural preferences** lead also to different behaviors (it is not a mystery that in certain countries clients do not like to pay fees but prefer all-included formula).

Only a diversified range of services and products can really help match all these various clients' profiles. Regarding services, a very large majority of European clients need to be accompanied by available and quality advisors, supported by clear decision-making processes, tutorials, or a combination of both. Such services, crucial to help retail investors navigate in financial markets, cannot be provided at a zero cost.

These are the reasons why we call the EU co-legislators to remove the partial ban on inducements, as it would lead to the disappearance of access to services including advice. These are the reasons why we also recommend removing any reference to the notion **of benchmarks in the VFM test along with the new "best interest tests"** that will result in pushing investors towards increasingly standardized and low-cost products**. The vast majority of EU investors will not benefit from such measures,** as most of them are not seeking only for simple products without ESG features.

In our view, clients' expectations should be at the center of RIS and cannot be limited to cheap standardized products. Consequently, we believe that **the answer lies upon addressing VFM in a proportionate and fit-for purpose manner, along with helping clients to better understand what they buy (expected return, costs, services) through a simplified, clear, and meaningful information.**

Last but not least, any measure should be checked against end-client testing, whose results are effectively translated into the regulatory framework.

Digitalization and financial education will progressively change the financial products' distribution landscape, and we are confident the industry will be there to meet the evolving needs of its clients. However, **in the interim, it is essential to make sure that the legislative framework preserve the capacity to meet all EU investors' expectations.**