Securities and Markets Stakeholder Group

Advice to ESMA

SMSG advice to ESMA on its Call for Evidence on the Retail Investor Journey

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1 Executive Summary

The SMSG identifies different non-regulatory barriers to retail investor participation, but their relative importance may differ among member states. The need to invest for later pensions may differ between member states, depending on the pension system. Likewise, certain "financial culture" habits, like investing first in real estate, may differ among member states. Other elements identified are disposable income and financial assets; trust or distrust in financial markets; taxation (including ease of tax declaration); ease and reliability of investment transactions. Several of these factors are multifaceted. Trust, for example, may be influenced by bad experiences but also by lack of familiarity with financial markets. The SMSG suggests that remedies are not only based on national aggregates but also take into account different portfolio sizes.

Costs and fees may influence investment behaviour to the extent that investors are aware of these costs. The SMSG believes that the future performance scenarios currently shown on the KID document do not adequately inform investors about the actual performance and the impact of costs on net performance. The SMSG favours the use of historic performance compared to the benchmark, as this is an indicator of the quality of the investment process.

Net performance but also risks are key elements in disclosure. More generally, net performance should also be considered in real, i.e. inflation-adjusted terms. As a side-reflection to this advice, the SMSG suggests that national authorities lead by example by basing capital gain taxes on real, rather than nominal capital gains.

In the context of taxation, the SMSG also warns for cases of double taxation of investment income within the EU, and for administrative complexity, in particular when it comes to cross-border investing.

Regarding the question of whether investment advice includes a sufficiently broad range of investment products, the SMSG has two principal observations. On the one hand, in most member states, advice through banks with tied asset manager prevails over independent advice. This results in advice being focused on own, often more expensive, products, in which the advice cost is implicitly transferred to the management fee. On the other hand, advice for smaller investment amounts is often based on investment funds rather than on portfolio advice that includes different products. Not only the costs (working hours of staff) but also compliance requirements may preclude portfolio advice, resulting in investment funds being advised as an alternative. In its evaluation of regulatory issues, the SMSG found little evidence that AML requirements impact on the willingness of retail investors to invest. With regard to suitability assessments, the SMSG is aware that suitability requirements result in additional administrative requirements. While not disregarding this, the SMSG is generally positive about the suitability requirements and does not feel that they impact on the willingness of retail investors to invest. However, there is key role for financial advisors to explain why these requirements are there (i.e. protection of the investor). With regard to sustainability preferences, though, the concepts are too complex for investors (and advisors).

With regarding to knowledge and experience, the SMSG first of all notes that financial advisors play a key role in dialoguing with investors. For this reason, the SMSG points at the relevance of regularly assessing the adequacy of knowledge requirements for financial advisors. It also suggests that NCAs exchange best practices of enhancing financial literacy of retail investors and that general financial literacy financial education initiatives be expanded to include the digital competencies needed to access financial services. This stems from the observation that the adoption of robo-advice goes slowly.

A topic that was not touched in the Call for Evidence is shareholder engagement. The SMSG supports initiatives that facilitate shareholder engagement.

2 Background

1. On 21 May 2025, ESMA launched a Call for Evidence on the Retail Investor Journey in order to better understand retail participation in capital markets. This call for evidence included non-regulatory barriers; attitude of younger investors and in particular their

attitude towards more speculative and volatile investments; and regulatory requirements, in particular with regard to disclosure requirements, suitability and appropriateness assessment. The Call for Evidence also included specific questions for consumers and the financial industry. The Call for Evidence should help ESMA assess whether specific regulatory adjustments or clarifications are needed to enhance both investor protection and retail engagement in financial markets.

2. As the ESMA Stakeholder Group (SMSG) includes different stakeholder groups, the SMSG did not focus on the questions addressed to one specific stakeholder group but instead tried to gather evidence encompassing the different stakeholder groups. The SMSG notes that, in addition to the perspectives of different stakeholder groups, perspectives coming from different member states may be different, but useful.

3. As ESMA's consultation is a Call for Evidence, and not at this stage a consultation on guidelines or proposals, the SMSG focused on gathering evidence, including references to literature and research. However, while fully understanding that the primary focus of the consultation is a call for evidence, the SMSG also wanted to use this occasion to voice opinions.

2.1 Understanding non-regulatory barriers to retail investor participation

Q1: What are the main reasons why many retail savers choose not to invest in capital markets and instead keep their savings in bank deposits.

4. The SMSG identified different reasons. Their relative importance may differ from country to country. While the SMSG recognizes that it would be useful to rank the different reasons and establish a hierarchy, it does not have full and complete information to do so. Instead, the SMSG identified different reasons that may all play a role:

    a. Pensions: pension systems differ among countries. Where individuals can rely on state-organised (first pillar) or employer-organised (second pillar) pension provisions, there will be less pressure and less remaining financial income to engage in additional individual investing;

    b. Culture with regard to financial investing: in several member states, savings (other than bank and saving accounts) go first and foremost to acquiring real estate. Investing in capital markets is (at best) secondary to real estate;

    c. Disposable income and financial assets: saving accounts have the advantage that they can easily be liquidated. As such, they serve as a financial buffer. In this respect, we also refer to the Italian study: Rapporto Edufin Index (2° Ed, 2023). In a survey among 3500 Italian households, lack of financial resources was cited a primary reason for disinterest in financial or insurance matters.

d. Trust. Trust is multifaceted.

   i. It may be impacted by bad experiences in the past. In this respect, we refer to question 3.

   ii. It may also be impacted by lack of familiarity with financial markets and financial products. This goes also for Member States with a high level of "general" financial literacy like Sweden which notes the difficulty to connect knowledge about interest rates, inflation etc. with personal investing (Report by Swedish Financial Supervisory Authority, September 2024). With regard to lack of familiarity with financial products, financial illiteracy plays a role. Referring to the Italian study mentioned above, complexity of financial matters, the overwhelming variety of products and services and the fear of making mistakes are also mentioned as obstacles for investing. While lack of knowledge may not be the sole, nor principal reason for the reticence toward investing, it cannot be disregarded. For a further discussion, see also Question 2.

   iii. Financial advisors also have an important role in establishing trust. In this context, the SMSG points at the necessity of having sufficiently qualified advisors. In this respect, the SMSG calls for continued collaboration between the Commission, Member States, ESMA and NCAs to further develop the requirements and refers in this to the EU Commission Staff Working Document (30.6.2022): Report on the current framework for qualification of financial advisors in the EU and assessment of possible ways forward.

e. Taxation: apart from the impact on income, the SMSG wants to highlight possible side-effects of taxation:

   i. There are unfortunate cases of double taxation of investment income within the EU, which are discouraging retail investment into other Member States of the EU. For example, Belgian residents are taxed overall at 30% on dividend income received from Belgian-domiciled listed companies, whereas they are taxed overall at 40.5% on dividend received from French-domiciled listed companies[1], even after recovering any withholding taxes.

[1] In line with the bilateral tax treaty, gross dividends are taxed 15% (assuming the recovery of the withholding tax (otherwise it would be 30%) by France, then Belgium taxes at 30% the remaining 85%, resulting in an overall 40.5% tax rate.

ii. The administrative burden of tax return: a complex taxation process with complex administrative burdens for tax reporting of investments, may be a disincentive for investing (see below).

iii. Bias towards specific products. Taxation may steer investment behaviour towards specific products. Examples are: favourable tax regime for building societies in the Czech Republic; tax exemptions on savings accounts in Belgium. As a counterexample, the Swedish Investeringssparkonto provides the same tax regime to all investments in capital markets, bonds and equities alike.

f. The investment process and ease of transactions: ease and reliability of investment transactions may also contribute to active investing. Enhancing digital accessibility to facilitate transactions may in this respect be useful. See in this respect, the study of Autorité des Marchés Financiers, based on French active retail investors, defined as investors that executed at least one investment transaction during a given year (an_20250603-etude-clientele-detail-vfinale-en.pdf). The study showed that the percentage of active investors that executed their transactions through neo-brokers or internet banks increased between 2021 to 2024 from 36,1% to 56,1%. However, there were significant gender differences, with women relying more on traditional banks. While these findings seem to point at certain trends, a word of caution is nevertheless needed. They are based on the behaviour of active investors, but this comprised only 2.5% of the French population in 2024.

5. Referring to disposable income and financial assets: the SMSG suggests that studies and remedies to encourage investment behaviour be not only based on aggregated figures but are refined taking into different levels of financial assets owned in bank accounts. The situation of someone who has financial assets to invest in the order of 5K is different from one who has assets in the order of 50K.

Q2: To what extent do retail investors find investment products too complex or difficult to understand?

6. Under question 1, it was already noted, with as example the Italian study (Rapporto Edufin) that complexity of financial matters is cited by investors as one of the reasons for not-investing. Therefore, financial education aimed at people of all ages, from youth to pensioners, may also contribute to more awareness and a more positive attitude towards investing. It is essential that financial education evolves alongside digitalisation and reflects the diverse needs of retail investors. Educational materials should match the wide diversity of retail investors and provide support based on their level of financial and digital skills. Also, financial literacy enhances the capacity to dialogue with and challenge financial advisors. Nevertheless, financial education also risks an over-confidence of retail investors leading them to more risk taking, see e.g. the outcomes of the BaFin study on turbo-

certificates (https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Fachartikel/2025/Studie_250521_Turbo_Zertifikate.html;jsessionid=E59BCEDBB4C1A2AAB80EE799E9A515A2.internet982?nn=19774116). Any financial education initiative should therefore be integrated into a wider regulatory concept. Additionally, since academic studies (Fernandes et al 2014)[2] have found that financial knowledge decays over time, in particular for adults "just in time" education could be an effective way to address that challenge.

7. However, the SMSG believes that complexity may not be solely focused on complexity of the products. Simplicity of the investment process, taxation and tax reporting as well as other incentives, also must be kept in mind.

8. Also, financial illiteracy and lack of experience with financial markets may increase the perception of complexity. Retail consumers must have the opportunity to get acquainted with capital markets and learn by doing.

Q3: Do past experiences with low or negative returns significantly affect retail investors' willingness to invest again?

9. While the SMSG believes that past experiences do affect retail investor's willingness to invest (again), it believes this must be considered together with the other explanations mentioned under question 1. The SMSG would like to make some additional remarks:

    a. Next to the negative returns, widely-publicised financial scandals (for example Wirecard) and the lack of pan-EU collective redress for individual investors[3] contribute to distrust in capitalism and the financial system;

    b. There may be a generational difference. The generation who is today over 40 years old has encountered the financial crisis, the sovereign crisis and the Covid crisis.

    c. Nevertheless, one must be careful in generalizing too much. See in this respect also the Final Report of IOSCO's Retail Market Task Force (FR05/23 Retail Market Conduct Task Force Final Report): "Some IOSCO members have observed that retail investors are increasingly attracted to high-risk investment opportunities" (p. 13), be it that average retail investment size was small.

Q4: Do high fees and costs discourage retail investors from participating in capital markets?

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[2] Fernandes, D., Lynch, J. G., Jr., & Netemeyer, R. G. (2014). Financial literacy, financial education, and downstream financial behaviors. *Management Science, 60*(8), 1861–1883

[3] The Transparency Directive, Market Abuse Directive and Regulation, and the Prospectus Regulation are excluded from the scope of the Directive on representative actions for the protection of the collective interests of consumers of 2020.

10. High costs and fees may discourage retail investors from participating in capital markets or steer investors toward “do-it-yourself alternatives” (execution only) to the extent that they are aware of the costs and fees. In this respect, the SMSG points at the implicit cost for advice that is charged indirectly through the management fee of more expensive investment products. For example, a one-off fee for financial advice of, for example, 450 euro may be perceived as too high by investors that have smaller investment portfolios. However, in the context of long-term investment and assuming that higher management fees are not compensated by better performance, over the totality of the holding period, the cost of charging advice indirectly through the management fee may be higher than the one-off fee. Generally speaking, sophisticated investors are more aware of costs and fees.

11. The concern about costs is also linked to the observation that generally speaking, on the long term, low fees are a good predictor of net return. However, while this is a general observation, the SMSG points at the relevance of net performance as evidence of the quality of the investment process. For a further discussion on this, see questions under 2.3, referring to disclosure (in particular KID);

12. However, the SMSG also refers to the relevance of net performance in real-terms (i.e. inflation-adjusted returns). Net performance that does not offer positive inflation-adjusted returns impoverishes the investor on the long term. For a discussion and also a suggestion with regard to capital gain taxes, see pt 53.

13. While net performance is highly relevant, it must be considered alongside the level of risks (in terms of volatility of the performance) and the liquidity of the considered product. Generally speaking, it is difficult for retail investors to assess the way that performance, risk and liquidity meet their needs and expectations. This underscores not only the need for proper disclosure, but also for proper advice (for example with regard to portfolio diversification).

Q5: Have you identified a lack of trust in investment service providers as a factor influencing retail investors’ reluctance to invest?

14. The SMSG has not identified a lack of trust in investment services specifically. However, there is a distrust toward financial markets in general that may be a factor in influencing retail investor’s 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?

15. Apart from financial advisors themselves, a potential useful form of support could be offered by independent organisations, which investors could contact in case of questions or possibly advice on the advice.

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.

16. Question 7 focuses on the investment advice about products. However, economic theory points at the relevance of investment portfolios as a whole. Hence, the question is not only whether investment advice covers all products, but also whether there is advice about the portfolio as a whole.

17. Due to the lack of financial knowledge, investors are often not familiar with the full range of potential products. Hence, very often the investor is not even aware of products not advised to him which makes it worse as he does not judge on a fully informed basis. In this respect, a reference can also be made to paragraph 6: "financial literacy enhances the capacity to dialogue with and challenge financial advisors".

18. Notwithstanding certain countries, financial advice in most EU member states is dominated by financial intermediaries that combine, while complying with legal provisions intended to limit conflicts of interest, both the function of distributor and manufacturer of investment products, introducing in this way a one-sidedness in the structure of the European financial advice landscape. To the contrary, advice through independent advisors only has a minor role. This one-sidedness exposes financial advice to inherent potential conflicts of interest. Integrated financial institutions with an in-house asset manager tend to focus their advice on their own investment funds (see: European Union, 2018: Distribution systems of retail investment products across the European Union. Distribution systems of retail investment products across the European Union - Executive Summary). Cost-efficient products, like shares or ETFs, are rarely advised to retail clients.

19. In this context, proposals to decrease the possibility for banks to distribute third party funds by getting compensated for this may have side-effects that are not helpful, especially in relation to platforms offering a variety of funds/products. Reference can here be made to Sweden, where there are several banks and platforms offering both their own and third party funds and products, in return for some compensation for the distribution, at fees that are amongst the lowest in the EU.

20. Despite this one-sidedness and the system of independent financial advice being less well known, both independent financial advisors and advice through banks enjoy a relatively high level of trust. See in this regard Commission Staff Working Document, 30.6.2022 Report on the current framework for qualification of financial advisors in the EU and assessment of possible ways forward. On the question "When you look for financial advice, which of the following sources do you trust most", banks were chosen by 40% of male investors and 34% of female investors. For independent financial advisors this was 25% and 24% respectively. For both categories this was substantially higher than informal

advice (family, friends), social media or government bodies. Further below, we will elaborate on this, by pointing on the one hand to the need for sufficiently qualified advisors (see paragraph 71), on the other hand to the potential role of banks as financial intermediaries to mobilize savings (see paragraph 33).

21. On the other hand, financial institutions may consider the cost of tailored personal advice, covering a broad range of products, as prohibitive for smaller investment portfolios. At the same time, compliance checks are much easier when binary (is a product suitable Y/N? Is a product withing the target market Y/N) than at portfolio level. Hence, there is tendency to focus advice for smaller investment portfolios on standard products such as investment funds.

Q8: To what extent does a lack of financial education or investment knowledge contribute to retail investors' reluctance to invest in capital markets?

22. See also our answer on questions 1 and 2. Lack of financial education or investment knowledge may contribute to the general feeling of being unfamiliar with financial markets and financial markets/products being too complex. As such, it may contribute to investors' reluctance to invest in capital markets. However, this is not the only reason and must be considered together with the other reasons mentioned in question 1.

Q9: Do psychological or cultural factors – such as fear of losing money, distrust in financial markets, or a preference for familiar products – play a role in retail investors' hesitation to invest? If so, which of these factors seem most important?

23. We refer to our answer on question 1.

Q10: Are there any other significant non-regulatory barriers that discourage retail investors from investing in capital markets?

24. We refer to our answer on question 1.

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?

25. Digital platforms may have different functions: from platforms that facilitate transactions to platforms that provide digital (robo)advice. The comments below refer in particular to digital advice.

26. While robo-advice is often referred to as a tool that may result in lowering advisory costs, the adoption goes slowly. Digital financial literacy is a new breed of research within the broad topic of financial literacy and academia and policy makers still have to fully agree on

how to measure it. A recent study (Aristei D, Gallo M, Financial Literacy, Robo-Advice and the demand for human financial advice: evidence from Italy. robo_advice_new280525) based on a 2023 survey from the Bank of Italy, identified some correlations:

a. individuals with greater financial knowledge are less inclined to rely on online services for automated financial advice. Possible explanations for this are (p. 8): (i) individuals with high financial literacy may perceive the robo-advice as insufficiently transparent; (ii) higher reluctance to disclose personal information through digital platforms; (iii) greater financial literacy may result in a preference for human advisory services as interaction is perceived less uncomfortable.

b. Conversely, unjustified confidence in one's financial abilities and digital financial literacy enhance the likelihood of utilising robo-advice services. In this respect, overconfident investor may play a critical role in the adoption and diffusion of emerging financial services (p. 9).

c. Trust in financial innovation, the use of digital financial services, and the propensity to take risks and save also emerge as significant predictors of an individual's use of robo-advice.

d. There is also a significant complementary relationship between the adoption of robo-advisory services and the demand for independent professional human advice. By contrast, a substitution effect is found for non-independent human advice.

These findings highlight the importance of hybrid solutions in professional financial consulting, where robo-advisory services complement human financial advice.

27. In the digital era, financial platforms increasingly use digital engagement practices (DEPs) (see DP ESMA35-43-3682) — such as push notifications, gamification, and real-time alerts — to keep retail investors engaged. While these practices can enhance user experience and financial literacy, they may also be manipulated to exploit user behaviour. Additionally, in their digital journey retail investors might come across dark patterns, i.e. user interface designs that subtly coerce users into actions they might not otherwise take, such as excessive trading, enabling risky investment options, or oversharing personal data. Examples include making it easier to "buy" than "sell" stocks, hiding important information in fine print, or using visual cues to nudge users toward speculative assets. These manipulative tactics pose several threats to retail investors, including:

a. Increased financial risk due to impulsive or frequent trading.

b. Lack of informed consent, where users are unaware of the risks involved.

c. Exploitation, where personal and behavioural data is harvested for profit.

d. Erosion of trust in financial systems and institutions.

To reduce these threats, behavioural audits of dark patterns, which involve systematically reviewing digital interfaces to identify manipulative design tactics that exploit user behaviour — such as hidden costs, forced continuity, or misleading language — and assess how these patterns may lead users to make unintended or harmful financial decisions are a path to investigate. Additionally, cognitive walkthrough exercises complement these by evaluating a user's step-by-step decision-making process when interacting with a system. It helps uncover moments where design may confuse, mislead, or pressure users, particularly in high-stakes contexts like investing. Together, these methods might help detect and mitigate unethical design, promoting transparency and user-centric digital experiences.

28. Regarding features that could simplify the investment process: digital platforms that enable comparison between investment products of different manufacturers would be very helpful. Nonetheless, it is important that such comparison tools are not hidden sales channels for manufacturers offering the best fees to comparison tool operators.

29. It is important to note that some retail investors may lack the digital skills required to use platforms or mobile applications. Therefore, financial education initiatives should also be expanded to include the digital competencies needed to access financial services, along with an understanding of the associated risks, and should also address digitally not savvy investors.

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?

30. It is important to have easily accessible, efficient and trustworthy complaints procedures in the banks/investment firms. Authorities and independent organisations can also play a role in providing guidance on- and off-line to investors. In Sweden this is arranged through and independent foundation, supported by the SFSA, the Consumer Authority, and Swedish trade associations. The advantage with this "joint venture" is that the trade associations regularly get feedback on what works (and does not work) in relation to services, products, etc, and can then have a dialogue with members about it. (www.konsumenternas.se/om-oss/konsumenternas-bank--och-finansbyra/)

31. NCA's can have a useful supervisory role in complaint handling. Practices may differ among member states. The SMSG encourages ESMA to coordinate an exchange of practices and, if relevant, to conduct peer reviews, so that possibly some high-level

guidelines and/or examples of best practices can be proposed (for example with reference to timings for investigating and replying).

32. The EU Directive on representative actions for the protection of the collective interests of consumers of 2020 (also known as the "Collective Redress Directive") largely excludes individual investors into listed securities from its scope. For example, the abused investors in the Wirecard scandal have not yet received any compensation. The lack of effective Pan-EU collective redress mechanisms for direct investors into capital markets, compared to the US for example, is a reason for the mistrust of EU citizens in the capital markets.

Q13: What measures - whether market-driven or policy-driven - could help improve retail investor participation in capital markets?

33. There is a need for measures that allow retail investors to get acquainted with financial markets and a broad range of financial instruments. These products must be accessible for small or even no minimum investment amounts, have a simple structure, be comprehensible and cost efficient and allow easy investing and easy tax reporting (where relevant). Moreover, notwithstanding accounts contractually agreed for a duration of time, investors should be able to move their savings and investment accounts between providers without the need to liquidate existing assets, without undue delay, with limited administrative burden and at minimal cost – or free of charge (in jurisdictions like Germany where it is considered a legal obligation to release securities). An example is the Swedish Investeringssparkonto, with median investment amount of around 7.000 euro. The ISK also benefitted from societal trust, with unions encouraging blue-collar workers to invest through ISK and also the Swedish Supervisory Authorities and financial advisors enjoying a high degree of trust.

34. Mobilizing balances on bank accounts may also be part of the solution. In this respect, there may be a role for banks as intermediaries, that may be facilitated to the extent that they are integrated with an asset manager. Nonetheless, an exclusive focus on in-house products should be avoided.

35. Pension system reforms could play a significant role in bringing more retail investors towards capital markets. In this respect, a traditional repartition-based pay-as-you-go model and a market-based pension fund enrolment may complement one another, as they are exposed to different risk types: demographics and ageing of the population in the former; market circumstances in the latter.

36. Greater cooperation among NCAs in exchanging best practices in the field of financial education could enhance awareness of effective approaches and help identify gaps and opportunities across jurisdictions.

2.2 Understanding the appeal of speculative and volatile investments among young people

Q14: 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?

37. First of all, it must be kept in mind that young people are crypto-natives. To the contrary, for older investors, cryptocurrencies are not part of their generation. Even though young investors may not fully understand the risks, they are growing up in a world where cryptocurrency exists and are willing to explore this new world. They also usually have stronger digital skills and are more exposed to any new technological developments. The appeal of volatility is the potential of high profits. Social media — especially finfluencers — and peer conversations may be the main driving external influences. The other side of the coin is that traditional investment products may have less appeal.

38. The simplicity of distribution channels also plays a key role in attracting younger investors to these markets. Crypto-asset trading platforms are often accessible through streamlined onboarding procedures, typically requiring only basic identity verification and minimal suitability assessments.

39. However, as long as it is a matter of investing with small amounts, the risks remain limited. Rather than considering this as a problem, it can also be a wake-up call, pointing at the success in domains with easy access and little protection, which could be justifiable as long as investment amounts remain low.

2.3 Ensuring meaningful and effective disclosures for retail investors

Q15: MiFID II disclosure requirements aim to provide transparency and support informed investment decisions. In practice, do you believe these disclosures are helping retail investors engage with capital markets, or are there aspects - such as volume, complexity of content, lack of comparability, or format - that may reduce their effectiveness?

Q16: Do retail investors find the PRIIPs KID helpful in understanding investment products?

40. The multitude and the current design of performance scenarios in the KID document is too complex. These performance scenarios result in an overload of information and are not properly understood. For example: the moderate scenario is often interpreted as the most probable scenario. It is very difficult, if not impossible, to explain the underlying

assumptions and calculation methodology to a retail investor, hence the risk of misinterpretation is high. In addition, the layering of detailed disclosures (e.g. performance scenarios, cost and charges, target market information) across documents such as the KID, KIID, and ex-ante cost disclosures often results in duplication and confusion.

41. While the cost-part of the KID intends to capture a lot of information, retail investors find it difficult to understand. Too many concepts are introduced and the investor will usually not read the details. A similar problem relates to the MiFID disclosure on costs. For example, the PRIIPs KID offers limited value to retail investors in understanding exchange-traded derivatives (ETDs), largely due to the disconnect between exchanges — who define ETD terms but do not distribute them or engage with end investors. This gap hinders accurate disclosure of key KID sections, such as intermediary costs.

42. What matters is net performance, not costs as such. While the SMSG recognizes that past performance is not a mirror for the future, it prefers an approach, where, rather than abstract performance scenarios, past performance is shown together with a benchmark and a warning that past performance is not a forecast of the future. Notwithstanding specific products (for example, structured funds or products that embed derivatives) for which the performance assessment is forward-looking by nature and where well-chosen scenarios may be most useful in explaining the mechanics of the product, the SMSG prefers past performance, compared to the benchmark, to be used on the KID. Past performance allows the investor to learn whether the product manager has ever met his investment objective or not, and gives an idea to what extent costs and charges impact on the performance of the investment product and hence illustrates the value for money offered by the asset manager.

43. In this respect, the SMSG also refers to the viewpoints it raised before (see among others: SMSG letter PRIIPs past performance, 13 October 2015, ESMA/2015/SMSG/028)

44. It is quite challenging to find the appropriate method to disclose information on costs and charges and their impact on performance. For this reason, the SMSG suggests cooperation with and exchange of ideas among financial authorities. In particular, it points at synergy with similar efforts by the British Financial Conduct Authority. See in this respect the Consultation by the FCA, CP 25/9, Further Proposals on Product Information for Consumer Composite Investments. A common approach would also facilitate the enhancement of a Pan-European financial space, incorporating both the EU and the UK.

45. Apart from the remarks on performance scenarios and cost and charges, the SMSG also points at another problem: the language which often lacks simplicity. The language used in KIDs often reflects a legal bias. Legally correct wording minimizes the risk of legal disputes and litigation. However, it may not be intelligible for retail investors. For this reason, Legal Design, i.e. a process and mindset aiming at making legal documents easier

to understand, may be useful. Also, guidance by ESMA and NCA's can play a valuable role here.

46. Given the complexity of the language and the contents, KIDs are too difficult to be used by investors without help. In reality, investors depend on advisors to "translate" the KID into "human language" which is easy to understand. Therefore, the SMSG sees a need for regulators and lawmakers to thoroughly review the KID and design it in a way that its content is comprehensible, both for retail investors and financial advisors so that it will be used as a preparatory document during the investment advice process. While the KID can be useful documentation that accompanies a conversion between advisor and investor, it falls short of its ambition to be used as a stand-alone document.

47. MiFID II disclosure requirements have not fully achieved their intended goal of supporting informed retail investor engagement also due to inconsistencies in how transparency and disclosure rules are applied across different markets (e.g. regulated vs OTC markets) for different product types. Regulatory focus should be on ensuring that investors benefit from consistent protection and comparability across all product types and where they are traded.

Q17: For firms: Do you measure investor engagement with KIDs and digital disclosures (e.g., click-through rates, reading time, or interactive tools)? Are these available in formats adapted to mobile-first environments?

48. The SMSG does not have specific information to answer this question. However, as a side-reflection to this question, it notes that it would be interesting if platforms were to evolve where investors can compare information of products across manufacturers, rather than open KIDs one by one.

Q18: Do retail investors find the costs and charges disclosures helpful in understanding the costs of investing?

49. We refer to our answer on question 16.

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)?

50. The SMSG did not discuss this matter.

Q20: Do retail investors find the quarterly statements helpful in keeping track of their investments?

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?

Q21b: If considered necessary, how could the 10% loss reporting be improved?

51. What is a material loss cannot be generalized and depends on the investment portfolio. For example, for defensive portfolios (i.e. risk-averse portfolios), money market funds or bond funds, a 10% loss may be material. However, for riskier products, it may merely be an implicit risk of the product.

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?

Q23: Do questions and measures on customer due diligence in accordance with AML/CFT requirements affect the onboarding experience for retail investors? Are there particular steps in the process that cause delays or confusion?

52. The SMSG is not aware of any significant problems in this regard and does not consider it to be a major problem.

Q24: to what extent do national tax regimes create barriers to offering investment services and attracting retail investors on a cross-border basis?

53. At the product level, the situation differs depending on product type. In particular, for specific products, where national tax regimes are often very specific, this may be different. In case of employee-stock programs, companies operating in different member states find it difficult to establish programs that apply to employees in different member-states. Also, the specificities of third pillar pension funds are often linked to national legislation.

54. At the level of investment services, the situation becomes more complex.

    a. To the extent that retail investors want their financial intermediary (be it banks, or on-line brokers) to provide the necessary information or preparation for their tax declaration, national tax regimes may be so specific that cross-border delivery of this service is hardly possible or may even prohibit the support in tax matters by banks. In Germany for example, banks are not allowed to support their clients in requesting a certificate of residence from the clients' tax authority to reclaim withholding tax as this could be considered as tax advice.

    b. Given their national specificities, differences between tax regimes may be an obstacle for cross-border investment advice.

Q25: To what extent do tax-related issues discourage retail investors from investing in investment products issued or manufactured in another Member State?

55. For cross-border dividend income there are unfortunate cases of double taxation and/or of higher taxation than for domestic dividend income. See in this respect the comments referring to taxation in paragraph 4 (question 1).

56. Simplicity of tax declaration should be a major objective. Administrative tax burdens may discourage retail investors even more when combined with different tax regimes. This may refer to information to be provided and forms to use; esp. when reclaiming double taxed money…. Some examples (see Better Finance& DSW, May 2023, Withholding Taxes on Dividends in the European Union: an uphill battle for individual shareholders).

   a. About 70% of European investors do not even start the Withholding Tax reclaim process, as they consider it too complicated, cumbersome, lengthy of too costly.

   b. Over 90% of European investors find the Withholding Tax reclaim procedure overall difficult.

   c. 31.3% of investors intend to stop buying foreign EU shares due to cross-border Withholding Tax issues. The FASTER Directive has tackled some of the problems, but its effectiveness remains to be seen.

57. The SMSG wants to voice a broader concern with regard to the issue of taxation. Whether or not a financial investment results in the investor being better off depends not on net performance in nominal terms, but in real terms (i.e. after inflation). For this reason, the SMSG has in the past pointed at the impact of inflation on net performance (see SMSG Recommendations in regard of the impact of inflation on investor protection, ESMA22-106-4024, esma22-106-4024_smsg_recommendations_in_regard_of_the_impact_of_inflation_on_investor_protection.pdf). For this reason, the SMSG believes public authorities should lead by example, implying that capital gains taxes should be levied on inflation-corrected capital gains, rather than on nominal capital gains.

2.4 Regulatory disclosures and marketing material

58. The SMSG does not have any specific comments on the questions 26-28.

2.5 Suitability assessment related to investment advice and portfolio management

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?

Q30: For consumer associations: Have retail investors raised concerns about the amount, frequency and type of information they are required to provide for the purpose of suitability assessments?

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?

59. The suitability assessment consumes time and requires administrative work. Also, the associated procedures of advising the investors within the confines of his/her profile may be cumbersome. However, the depth of this problem may be firm-specific, with some intermediaries having stricter and more extensive policies than others. There be may situations of "internal gold-plating".

60. Also, the relation between the investor's profile and the products (s)he is advised (or not advised) is not always clear to the investor. This may sometimes result in incomprehension why specific products are not advised to him/her, even if (s)he is interested in them.

61. Despite this, the SMSG is on the overall positive about the suitability assessment requirements. First of all, the suitability requirements originated for specific reasons, namely to protect the client. Secondly, to give advice, the advisor must be familiar with the financial situation/objectives of the client. So (s)he would need to query the client anyway.

62. With regards to the problems cited above, there remains a key role for the financial advisor to clearly explain to the investors the objectives of the suitability assessments, i.e. to protect investors and to make sure that the advice is in line with his/her financial situation/objectives and also to explain the relation between the answers that were given as part of the suitability assessment, the resulting profile and the products that were (or were not advised).

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?

Q33: Have retail investors expressed concerns about the new elements related to the "sustainability preferences" and the way they are incorporated into the investment process (are they explained in an understandable way to clients)?

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?

63. The questions asked to assess sustainability preferences relate to concepts such as Taxonomy, Principal Adverse Impact indicators and Sustainability Objectives, that are not understood by the client. Neither has the retail investor a reference framework to assess the desired minimum proportions to such assets, or the impact of his preferences on the products that are suitable for him/her. There is some evidence that these concepts are not only difficult for the investor, but also for advisors and that advisors caution investors against indicating sustainability preferences as this could reduce the potential investment universe.

64. Notwithstanding these problems, a high percentage of savers prefers their investments to have an impact and/or be aligned with their values (see: Sustainable Finance Observatory, "Mind the Gap: Why European Investors don't get what they want-a survey of our Market Research in 14 EU countries). However, there remains a gap between the preferences valued by the investor (such as impact) and the concepts used to assess sustainability preferences.

Q35: 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.

65. The SMSG refers to the answers already given on questions 29-31. The relation between the investor's profile and the products (s)he is advised (or not advised) is not always clear to the investor. There is key role for the advisor to explain in easy-to-understand language the relation between the suitability assessment and the reason why certain products are advised/not advised.

2.6 Appropriateness assessment for advised-services

66. The SMSG did not have any specific comments on the questions 36-39. One comment, referring to the relation complexity – risk, goes beyond the appropriateness assessment and is therefore discussed under "Other topics".

2.7 Crowdfunding

Q40: Based on your experience, are there aspects of the crowdfunding investor journey that could be improved to better support retail investors, whether in terms of clarity, accessibility, or overall user experience?

67. Apart from expected return considerations, emotional considerations (such as curiosity, interest in the specific investment objective) are also drivers for crowdfunding investors.

While the SMSG did not go into detail, this must be kept in mind when discussing clarity of language.

2.8 Other topics

Q41: Does the current regulatory framework strike the right balance between protecting retail investors and allowing them to take informed investment risks?

68. Finding the right balance is very challenging. The current regulatory framework is — understandably — focused on protecting the investor. However, an implicit consequence is that very little is said about the potential upside (and hence also on missing out on potential upside).

69. The regulatory framework refers at several instances to complexity. While not disregarding the relevance of complexity, the SMSG believes that complexity and risk should not be confused. Shares are very simple products but investing in a single share is very risky. Vice versa, structured funds may be complex, but at the same time possess risk-mitigating features.

70. In certain instances, the current regulatory framework may have led to counterproductive outcomes, and constrained retail access even to plain vanilla financial instruments. For instance, equities or corporate bonds may fall into a high-risk category whilst inherently riskier products may score better on eligibility criteria.

71. The regulatory framework is to a large extent applied at product level. To a certain extent, this follows intentionally from the regulatory framework (for example: appropriateness; MiFID Product Governance). At other times, this is because it is easier for financial intermediaries to apply the framework and monitor compliance at product level. However, what is most relevant is the overall portfolio of the (retail) investor.

Q42: Are there any aspects of the retail investor experience – whether related to firm practices or the regulatory framework – that are not sufficiently addressed in this consultation or in the current MiFID II rules?

72. The financial advisor has a key role, not only because of his/her technical knowledge, but also to “translate” sometimes difficult concepts in “human language”. For this reason, financial advisors must possess sufficient knowledge and competence, as reflected in ESMA’s Guidelines. The implementation of these guidelines may differ between the member states. In some countries, a system of formal certification exists, in other countries the ultimate responsibility rests with the financial institution employing the advisor. Moving towards a Pan-European system of portable certification may at stage be too difficult to achieve. Nevertheless, taking into account the importance of trust, taking into account also

the need to avoid growing impact of Finfluencers, the SMSG suggest that NCA's explore the possibility to gradually evolve towards systems of national certification.

73. A topic that has not been addressed in this Call for Evidence is shareholder engagement. The French Votaccess may be a good example from a national market how voting can be facilitated. While the SMSG did not discuss in detail possible approaches, it is of the opinion that shareholder engagement at a European scale should be facilitated. This could be, for example, through a combination of high-level, non-binding ESMA principles to guide better practices and soft measures like awareness campaigns.

This advice will be published on the Securities and Markets Stakeholder Group section of ESMA's website.

Adopted on 28th July 2025

[signed]	[signed]
Giovanni Petrella Chair Securities and Markets Stakeholder Group	Chris Vervliet Rapporteur