

# Report on Call for Evidence

On the retail investor journey: understanding retail participation in capital markets.



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# 1 Executive Summary

## Reasons for publication

ESMA published a Call for Evidence (CfE) in May 2025 with the purpose of gathering input from stakeholders on key aspects of the investor journey, particularly the MiFID II regulatory requirements that impact retail investors when engaging with capital markets. With the CfE, ESMA sought to assess whether these requirements effectively support investor protection while also ensuring accessibility and ease of engagement. The CfE also examined non-regulatory barriers to retail investor participation in capital markets.

## Contents

This Report provides further background information on the consultation process and the responses received (Section 2), summarises the main feedback per topic, both for perceived non-regulatory and regulatory barriers (Section 3). Finally, the Report sets out ESMA's planned follow-up actions to improve the retail investor journey (Section 4).

## Next Steps

The responses to the CfE show that there is no single key obstacle in the investor journey and, instead, multiple factors, of regulatory and non-regulatory nature, together may create barriers for people to start investing. Consequently, efforts to enhance the investor journey will need to remain a continuous priority for the foreseeable future.

ESMA will use the feedback received to shape future technical advice on the MiFID II delegated acts, which will be determined by the content of the Retail Investment Strategy (RIS) and the mandates provided by the European Commission. ESMA will also use the responses to CfE to consider updating its MiFID II guidelines, where necessary. In addition, the insights gathered will inform longer-term strategic discussions and potential proposals on the overall framework.

## 2 Background

1. On 21 May 2025, ESMA published a Call for Evidence (CfE) on the retail investor journey<sup>1</sup> with the purpose of gathering input from stakeholders on key aspects of the investor journey, particularly in relation to the MiFID II regulatory requirements that impact retail investors when engaging with capital markets. The CfE also enquired about non-regulatory barriers with the aim of gaining insights into any concerns that retail investors may have and understand whether specific factors contribute to their reluctance to participate in capital markets.
2. In order to increase outreach and facilitate the engagement of national consumer associations, a shorter, condensed version of this CfE was prepared and was translated into all EU languages. This translated version focused on the aspects of the CfE most relevant for consumer organisations.
3. The response period closed on 21 July 2025. ESMA received a total of 96 responses, 15 of which are confidential. The answers received are available on ESMA's website unless respondents requested otherwise.<sup>2</sup> ESMA also sought the advice of the Securities and Markets Stakeholder Group's. The SMSG advice is also available on the ESMA's website.<sup>3</sup>
4. The purpose of this Report is to provide a high-level summary of the main feedback received on the topics covered in the Call for Evidence. While ESMA received extensive and detailed input from stakeholders, not all granular comments are reflected in this document. The feedback presented here is intended to capture the main themes and issues raised. ESMA will nevertheless take the full range of responses into account when considering future policy work and developing specific proposals.
5. This Report serves as an important step in the policy development process by providing a structured overview and analysis of the feedback received through the Call for Evidence. It reflects ESMA's initial assessment of the key themes and issues raised by stakeholders and identifies areas where further work and engagement may be required. While the Report aims to inform future considerations, it does not present final positions, policy recommendations, or draft proposals. Instead, it is intended to facilitate continued dialogue and to guide the next stages of analysis, as outlined in Section 4.
6. This Report is not intended to interfere with or duplicate the legislative process on the Retail Investment Strategy. ESMA acknowledges that political agreement on the RIS text has recently been reached and reiterates that this work remains separate and complementary,

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<sup>1</sup> With Ref: ESMA35-335435667-6289

<sup>2</sup> Link: [Call for evidence on the retail investor journey: understanding retail participation in capital markets](#)

<sup>3</sup> Link: [ESMA24-229244789-5395 SMSG advice on the Call for Evidence on the Retail Investor Journey](#)

providing technical insights that may support the broader policy objectives of enhancing retail investor participation and protection in the European Union’s capital markets.<sup>4</sup>

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<sup>4</sup> At the time of drafting this Report, the final legal text of the Retail Investment Strategy was not yet available.

### 3 Main feedback per topic

7. This section sets out the main stakeholder responses and, where relevant, a reply by ESMA per topic of the CfE.

#### 3.1 Non-regulatory barriers

8. Respondents to the consultation, including the SMSG, generally agree that retail investors face a number of non-regulatory barriers to investing, though there is no consensus on the precise combination of factors or the weight of their impact. While most respondents acknowledge that barriers to retail participation extend beyond the scope of regulation, the emphasis placed on each varies between stakeholders. There are, however, clear differences between responses given by consumer associations and respondents from the industry.
9. Consumer associations give particular weight to the lack of trust, high fees and lack of comparability as the most significant barriers to retail investment. Stakeholders from the industry instead point to regulatory barriers, lack of financial literacy, cultural and behavioural factors and a lack of incentives or the existence of disincentives to invest as the main factors. Among these industry respondents, there is broad agreement that the obstacles to retail participation lie exclusively outside industry practices.
10. The SMSG further notes that the combination of factors contributing to retail investors' low participation in capital markets varies across Member States. They cited a lack of trust in capital markets as a contributing factor. But they also included distribution-based pension systems<sup>5</sup>, cultural factors (with retail investors showing a preference for liquid assets such as deposits, and viewing real estate as their primary investment goal in several Member States) and taxation acting as a disincentive to investment or steering retails towards specific products not aligned with the goal of increasing retail participation in capital markets.
11. Besides, many respondents combine both regulatory and non-regulatory barriers in their responses to this section of the CfE, treating both as interlinked. For example, certain requirements around disclosures or suitability assessments were cited, by respondents from the industry, as contributing to or reinforcing certain cultural factors (such as the fear

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<sup>5</sup> A distribution-based pension system is one in which the contributions of current workers are used to finance the pensions of current retirees. No investment fund is built up, in contrast to funded systems where contributions are accumulated and invested, sometimes at the individual level, to provide future retirement income.

of loss) and acting as deterrents to investment. For the sake of avoiding repetitions, this section only addresses non-regulatory barriers.

#### *Financial Literacy and Risk Aversion*

12. Both consumer associations and industry respondents acknowledge the lack of financial literacy or low financial literacy as a factor shaping retail investment behaviour but they disagree on its impact.
13. Industry respondents overwhelmingly point to insufficient financial knowledge as one of the most significant barriers, arguing that even simple products remain inaccessible if individuals lack the ability to understand or assess them. Many highlight the combined effect of low financial literacy and strong risk aversion, which leads retail investors to prefer bank deposits over capital market products.
14. While consumer associations acknowledge the lack of financial literacy as a widespread issue, they also caution against placing excessive emphasis on this factor. Doing so, they argue, risks unfairly shifting the responsibility onto retail investors for their limited participation in capital markets, while overlooking other significant underlying causes of the problem.
15. Whilst the SMSG does not list the lack of financial literacy as one of the primary causes of low retail participation in capital markets, they nonetheless acknowledge the need for financial education initiatives and that it is essential that financial education evolves alongside digitalisation and reflects the diverse needs of retail investors.

#### *Trust in capital markets*

16. Consumer associations, as well as the SMSG, place strong emphasis on a lack of trust. Consumer associations link this lack of trust to conflicts of interest in sales-driven distribution models, mis-selling, and insufficient enforcement against fraud and scams. From their perspective, retail investors may feel unprotected, which discourages deeper engagement in capital markets. The SMSG also sees a lack of trust as a barrier to retail participation but approach it as a multi-faceted factor deriving from negative past experiences, lack of familiarity with capital markets and the necessity of having sufficiently qualified advisors.
17. By contrast, industry respondents did not see trust as a decisive barrier. Where defiance was acknowledged, it was understood not as a distrust in individual firms but as a more general lack of confidence in capital markets overall linked to capital markets being overwhelming (due to lack of financial literacy, regulatory disclosures and warnings, past widely-publicised financial scandals).

### *Costs and comparability of products*

18. Consumer associations identify high fees and a lack of comparability between products as significant barriers. They argue that opaque fee structures and limited possibilities for side-by-side comparison make it difficult for retail investors to make informed choices. The SMSG also acknowledges that fees may discourage retail investors from participating in capital markets or steer investors from investment advice but only to the extent that they are aware of the costs and fees of investing.
19. On the other hand, industry respondents generally do not acknowledge cost as a decisive obstacle. While acknowledging that price can influence decisions, they view it as just one factor among many, often offset by the perceived quality or added value of the service provided and not really decisive in retail investors' decision to participate or not in capital markets. However, once the decision to invest has been made, they consider that retail investors will look at the costs to decide in which product to invest.

### *Cultural and behavioural factors*

20. Cultural and behavioural factors, particularly risk aversion and the consequential preference for bank deposits, are widely recognized as highly impactful, including by the SMSG. Industry respondents stress that such factors are largely external to their practices and therefore beyond their control. They also point to broader structural issues, such as the lack of tax incentives and the absence of tax harmonisation across the EU, as disincentives for retail participation.
21. Consumer associations, in contrast, emphasise that behavioural barriers cannot be understood in isolation. In their view, risk aversion is often reinforced by complex disclosures, opaque fees, or inadequate investor protection frameworks, which together create an environment of uncertainty and hesitation.

### *The role of financial advisors*

22. Finally, industry respondents as well as the SMSG regularly underline the importance of financial advisors in addressing barriers to investment. Advisors are seen as playing a central role in helping retail investors navigate complexity, build confidence, and make informed decisions. The inducement-based regime was highlighted as a positive feature by the industry, as it ensures broad access to advice—an element that the industry views as essential for encouraging greater participation in capital markets.

### *Digital platforms*

23. Most respondents, including the SMSG, agree that digital platforms have had a significant and positive impact on retail investors' access to capital markets, making investing more intuitive and accessible. They also note that both digital investment platforms and social media can serve as valuable tools for promoting financial education.
24. At the same time, many respondents caution against the high-frequency engagement models used by some of these platforms, warning that such approaches may be counterproductive for investments intended to serve long-term objectives.

#### *Proposed measures*

25. Industry respondents focus on improving financial education, simplifying regulatory requirements and a reform of pension systems directed toward capital markets. Consumer associations, on the other hand, advocate for the development of independent advice (not based on inducements), the improvement of financial advisors' qualifications and/or training and increased enforcement actions. Both categories as well as the SMSG also call for the generalisation of tax incentives with the creation of an EU framework for ISAs and for tax harmonisation to facilitate cross-border investments.

#### Financial education initiatives

26. Many industry respondents highlight the potential of EU- and nationally-led financial education initiatives to enhance retail investors' understanding of capital markets and investment products, helping to reduce barriers associated with low financial literacy and cultural and behavioural factors (risk aversion).

#### Regulatory simplification

27. Regulatory simplification was another key area for the industry and is addressed in more details in the subsequent paragraphs of this report. The measures suggested (such as reducing disclosures on costs or risks or streamlining the suitability assessment) are intended to make participation less bureaucratic and overwhelming for retail investors.
28. Consumer associations also call for regulatory reform – although to a lesser extent – and agree on the need to reform disclosure requirements (evolving to a layered approach) but also called for the strengthening of firms' duty of care to retail investors

#### Tax and pension reforms

29. There is general agreement, including from the SMSG, on the need for tax and pension reforms, notably the creation of an EU framework for Investment and Savings Accounts (ISAs), the harmonization of taxation for cross-border investments and the creation of pan-

European ISAs. Such measures are seen as incentives to encourage participation in capital markets across Member States.

30. Respondents insisted that co-legislators should look at successful precedents of Member States that created ISAs in their jurisdiction (Sweden, France, the United-Kingdom) and make sure that such schemes have some or all of the following characteristics: a reasonable offer of simple products, no minimum investment amount, tax incentives, easy tax reporting, transferability without liquidation, low fees and a focus on EU capital markets.
31. Additionally, reforms to pension systems in countries where pensions are primarily distribution-based<sup>6</sup> are highlighted as a potential long-term measure to channel more retail savings into investment products.

#### Independent and high-quality financial advice

32. Consumer associations highlight the need for high-quality, independent financial advice as a key enabler of retail investor participation. They emphasise that advice should be free from inducements or sales-driven incentives, ensuring that recommendations are aligned with the investor's best interests rather than the interests of the distributor. Independent advice is seen as a critical tool to help retail investors navigate complex financial products, improve trust in capital markets and make informed investment decisions.
33. In addition to promoting independence, consumer associations, as well as the SMSG, advocate for the improvement of financial advisors' qualifications and training. Strengthening professional standards and ensuring that advisors have up-to-date knowledge of market developments, investment products, and regulatory requirements can increase the overall quality of guidance provided. Well-trained advisors are better equipped to explain risks, address investor concerns and support clients in developing long-term investment strategies, thereby reducing behavioural and informational barriers to participation.

#### Enforcement actions

34. Consumer associations also call for increased enforcement actions against fraud, scams and mis-selling, so as to restore retail investors' confidence in firms and capital markets.

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<sup>6</sup> A distribution-based pension system is one in which the contributions of current workers are used to finance the pensions of current retirees. No investment fund is built up, in contrast to funded systems where contributions are accumulated and invested, sometimes at the individual level, to provide future retirement income.

## 3.2 The appeal of speculative and volatile investments among young investors

35. Numerous respondents (including firms, trade and consumer associations and the SMSG) have observed that young investors are more attracted to speculative and volatile investment products compared to more experienced or older investors. A broad range of respondents, including the SMSG have also identified the following factors as primary drivers of this tendency (arranged in order from most to least relevant in the respondents' view):

- *high return expectations*: young investors are often strongly driven by their anticipation of high returns. This mindset may result from their limited exposure to significant financial market downturns and the associated potential for losses<sup>7</sup>. Additionally, young investors have typically longer investment horizons, which can also contribute to a greater tolerance for risk;
- *influence of social media*: i.e. influencer channels and online investment communities play a substantial role in shaping young investors' preferences. For instance, persons of these media often promote crypto-assets without appropriately disclosing the associated risks, while simultaneously overstating potential gains. Furthermore, the information and discussions provided through social media can reinforce optimism and risk-taking behaviour among young investors, as seen for example with the meme stock surge in 2021;
- *ease of access*: the availability of streamlined client onboarding processes and user-friendly trading applications, combined with the higher digital proficiency of young investors facilitate their engagement with speculative and volatile investments;
- *perception of lower costs*: recently emerged new financial service providers, i.e. "neobrokers", have introduced trading services at rather low cost and crypto-asset service providers seem to benefit from the bid-ask spread in their clients crypto-asset transactions, while charging them lower explicit costs. Consequently, many young investors seem to have become accustomed to this lower (explicit) price level. So, the explicit fees associated with rather traditional investment services and products, may appear exaggeratedly high to these investors;

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<sup>7</sup> For example, globally speaking, the last strong downturn on financial markets which took a significant time to recover was the financial crisis in 2008-2009. To have learned meaningful lessons as investors from this crisis, the investors should be at least 35 years old. Any investors who are considerably younger might not effectively remember the negative impact of this crisis on their investments

- *distrust in traditional financial institutions and advisers:* many young investors, whose understanding of the 2008–2009 financial crisis seems often to be shaped by second-hand information rather than direct experience, tend to view traditional financial institutions, particularly banks, as the root cause of that crisis. This perception often extends to financial advisers, who are frequently seen as selling expensive products that do not align with the investors’ objectives. In contrast, young investors often regard newly established service providers as more trustworthy, despite that their offerings also carry risks and costs.
- *preference for decentralised, non-intermediated investments:* some young and tech savvy investors seem to be attracted by investing options enabled by emerging technologies (e.g. crypto-assets, stablecoins and decentralised financial services more broadly). This group perceives these products as modern and independent. Conversely, these young investors regard traditional investment products, such as funds offered and managed by established financial institutions, as outdated and less appealing.

36. Additionally, among numerous respondents (including firms, trade and consumer associations) the following key proposals have emerged to address the observed tendency of young investors to favour speculative and volatile investment products:

- ensure compliance with and enforcement of:
  - i. both European Union and national regulatory requirements applicable to financial influencers; and
  - ii. the Markets in Crypto-Assets (MiCA) framework;
- broaden the availability of investment alternatives to speculative and volatile instruments, e.g. by increasing the offer of simple and transparent investment products, such as exchange-traded funds (ETFs).

37. ESMA notes that, together with NCAs, initiatives have been undertaken in the area of social media activities, such as the recently published Factsheet on Finfluencers<sup>8</sup>.

### 3.3 Disclosures

#### *General*

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<sup>8</sup> Link: [Finfluencers: Tips for responsible promotion](#)

38. Overall, respondents widely support the objective of disclosures, but they also see limited effectiveness due to the volume, complexity, fragmentation and technical language of information. It is also mentioned that terminology and formats of disclosures are inconsistent between firms and documents. At the same time, information overload is not mentioned as the primary reason to explain potential investors disengage. Consumer associations mentioned that despite of the potential improvements that can be made, disclosures still have a positive contribution.
39. Some respondents mentioned that the requirements are not fit for the digital age and are mainly focused on documents and PDFs. The requirements should be adapted for mobile-first/only investors so that disclosures are also user-friendly when investing through a mobile application. Suggestions mentioned include the use of layering or collapsible sections instead of relying on static information in documents.
40. Consumer associations stressed that any changes to the disclosure requirements should be consumer tested.

#### *Key Information Document (KID)*

41. Overall, views on the usefulness of the KID are mixed. While some respondents mention that it provides a quick overview of important elements such as costs and risks, that clients have become familiar with them and that the document is generally understood, some others mention that the document is too complex and contains too much information. The SMSG, for example, points out that the performance scenarios and cost information are too complex and difficult to understand for retail investors, also due to the technical language. On the performance scenarios, several stakeholders, including the SMSG and some consumer associations, prefer past performance over performance scenarios for products such as investment funds.
42. Some respondents mentioned that many cost-efficient products, such as ETFs, are not available in smaller Member States because the KIDs are not translated in the local language, thus preventing retail investors in such Member States from investing in these products and being stuck, instead, with more expensive ones. A suggestion mentioned is to allow clients to opt-in to receive KIDs in other languages.
43. Some respondents, including the SMSG, mentioned issues concerning exchange traded derivatives (ETDs) and/or corporate bonds and few suggested to delete them from the scope of PRIIPs. For certain corporate bonds with additional clauses, that are within the scope of PRIIPs, issuers may find it too cumbersome to draft a KID and therefore choose not to, resulting in these bonds not being available to retail investors. For ETDs, some sections - such as the one on costs - are not perceived as of added value by these respondents.

44. Only a limited number of respondents provided feedback on the accessibility and engagement with KIDs. Respondents mentioned that in online environments, between 1 and 10% of clients open KIDs. Some respondents mentioned that in face-to-face interactions the engagement is higher, as advisors discuss the content of the KID with their clients.
45. Several suggestions for improvements of the KID are mentioned, such as the use of visuals, providing a summary at the top with the most important information, making the text less dense, and using plain language. At the same time, some industry stakeholders noted that stability is preferred and that they would not like to see major changes to the KID, as any change is costly.

#### *MiFID costs and charges disclosures*

46. While most respondents agree on the importance of costs and charges disclosures, many, including the SMSG, also point out that they might be difficult to understand for retail investors, especially inexperienced. Several respondents mentioned that the breakdowns and tables contribute to information overload and lower the comprehensibility of the information. On this line, several respondents suggested that total costs are most important and should be focused on. A consumer association suggests improving these disclosures with a layered approach, including a simple first layer of essential information and with breakdowns available in the deeper layers.

#### *MiFID quarterly statements on financial instruments and client funds*

47. Quarterly statements are seen by some respondents as helpful and of added value for investors without access to online platforms that offer near real-time information on investments. Other respondents, however, also state that most clients nowadays have access to online platforms and for them these statements are not of added value and they contribute to information overload.<sup>9</sup>

#### *MiFID loss reporting*

48. Consumer associations highlight the importance for clients to be aware of material losses. However, it's also acknowledged that it is not the most helpful information, and that

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<sup>9</sup> ESMA is of the view that with the increased digitalisation of investment services, for more and more investors the quarterly statements could be of little [or less] added value. The last subparagraph of Article 63(2) MiFID DR already provides the possibility to not provide the statements where clients have access to an online system, under certain conditions. However, these conditions might be hard to fulfil/administer each quarter on a client-by-client basis. Therefore, it could be explored whether it is possible to modify this exemption in a way that only clients for whom the quarterly statements are of added value, receive such statements.

improvements are possible, such as adjustments in the threshold or providing the right context (e.g. market developments) together with the warning.

49. The SMSG, trade associations and firms are generally of a view that the information is not helpful for investors. It is stated that it may cause panic, impulse-driven decisions and that what a material loss is, cannot be generalised. For example, for more offensive long-term portfolios a 10% decrease is something that could be expected from time to time, while for more defensive portfolios such decrease is exceptional. It is also mentioned that for (certain) derivatives, price changes of more than 10% occur regularly which means that clients receive warnings (almost) on a daily basis, which is not of added value to such investors. It is suggested by these respondents to delete the requirement. If not deleted, suggestions to improve the loss reporting include:

- allowing to opt-in or opt-out;
- provide not only a warning but also the relevant context;
- make the threshold flexible, dependent on the client situation or relative to a benchmark.<sup>10</sup>

### **3.4 Anti-money laundering (AML), countering the financing of terrorism (CFT) requirements and taxes**

#### *Customer due diligence for AML/CFT purposes*

50. A broad group of respondents (including firms, trade and consumer associations and the SMSG) indicated that AML/CFT-related customer due diligence measures do not pose significant barriers to retail investors' investment activities.

51. Despite this view of AML/CFT requirements as a mostly well-functioning element of the investor journey, some issues were identified as having the potential for hampering retail investor engagement:

- firms' inconsistent implementation of AML/CFT requirements: firms apply AML/CFT requirements incongruently, which can result in clients being asked to provide the same information multiple times;

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<sup>10</sup> ESMA is of the view that it is important for retail investors to be aware of (sudden) material losses. However, such losses could occur at times of market stress which might not be the best time to take investment decisions for investors with a long investment horizon. There are several ways to prevent such behaviour, like providing the relevant context or by linking the threshold to a relevant benchmark, which means that the warning would be triggered only when the investments underperform, not when the general market goes down.

- firms' insufficient explanation to retail investors: retail investors often lack clarity on why they are required to provide certain information (i.e. the legal objectives behind the requests) and how to provide the information (e.g. submitting ID-related data via camera or other digital means).

52. To address these challenges, respondents proposed several measures, such as the harmonisation of AML/CFT standards across EU Member States; aligning standards to reduce duplication and streamline onboarding processes for retail investors. Respondents also mentioned enhanced communication and education efforts to better inform retail investors about the reasons for these requests and guide them in how to comply.

#### *Taxes and their impact on investments across the EU*

53. As a key recurring observation of the CfE, it emerged that national tax regimes and practical issues related to dealing with them create significant barriers, both for firms' provision of investment services cross-border and retail clients' investing in non-domestic investments. More specifically and due to their characteristics, these observed obstacles can be divided in direct and indirect barriers.

- *Direct barriers:* they refer to differences between EU jurisdictions in taxation and tax reporting (e.g. related to the taxation of dividends) which have a direct impact on firms' provision of cross-border investment services and retail investors' appetite to invest their money cross-border, ie:
  - i. impact on firms: different taxation regimes of EU jurisdictions increase the complexity for firms' provision of cross-border services, especially increasing the costs for IT and compliance and thereby also hampering the scaling up of investment services provided across member states;
  - ii. impact on retail investors: the procedures to declare and reclaim already levied taxes on cross-border investment services are more complex and costly in comparison to these required for domestic ones. In practice, this results for retail investors in among others (i) higher costs and longer procedures for tax reclaims<sup>11</sup>, (ii) uncertainty and (iii) reduced net returns, which may exceed the profits of small portfolios;

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<sup>11</sup> Examples provided by the SMSG, consumer and trade association on the complexity of cross-border tax reclaim procedures and their impact on retail investors include: such tax refunds may even take two years and the fees often exceeding €100. Accordingly, in 2024, in Germany, the refund for capital gains tax at the Federal Central Tax Office took an average of 615 days. Furthermore, 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. Additionally, 31.3% of investors intend to stop buying foreign EU shares due to cross-border Withholding Tax issues.

- *Indirect barriers*: they refer to jurisdiction-specific favourable taxational treatments of certain financial products (e.g. life insurances) which cannot be transferred to retail investors of other jurisdictions, but compete with cross-border investment products
  - i. impact on firms: such tax-favoured products are deeply integrated in the practices of the domestic distributors and provide strong incentives to offer them to clients', thus complicating the provision of with cross-border investment products;
  - ii. impact on retail investors: such tax-favoured products may appear or may be more profitable than alternative cross-border investments and they reduce competition and choice between retail investments products

54. As a result, a broad range of respondents (including the consumer and trade associations) identified (i) a *home bias* in EU jurisdictions, i.e., that firms mostly provide and retail investors mostly engage in non-cross border/domestic products and (ii) a limited provision of cross-border investment services by firms.

55. The respondents', including the SMSG, proposals to address these direct and indirect barriers stemming from the national tax regimes and related issues encompass different extents of harmonisation and include to:

- simplify and harmonise the requirements on taxation and related reporting (e.g. standardizing withholding tax procedures through digitalisation), in line with potential European Commission proposals and EU legislation on the harmonisation of taxation requirements<sup>12</sup>;
- provide clear guidance for retail investors on key cross-border tax requirements (e.g. a glossary of eligibility criteria for tax relief and the related relief rates and provision of standardised templates for investors for use in cross-border tax reclaim procedures);
- establish an EU Savings and Investment Account to foster cross-border retail investment, which consists of inter alia the following key features:
- set sufficiently high ceilings on eligible contributions to enable the build-up of a significant investment capital for retail investors;

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<sup>12</sup> Such as the Council Directive (EU) 2025/50 of 10 December 2024 on faster and safer relief of excess withholding taxes ("FASTER Directive").

- foresee favourable tax treatment for an extended holding period to encourage long-term investment
- introduce tax incentives for investments, applicable both to regular periodic investments and to lump sum contribution.

### 3.5 Regulatory disclosures and marketing material

56. This section of the CfE focused on whether industry practices provide transparent and meaningful information to investors and whether certain marketing and contractual documentation create unintended barriers to informed investment decisions. Only some respondents replied to this section of the CfE.

57. The feedback received relates to the existence of information overload, coming from disclosures, contracts and marketing information. While it might not be the primary reason for disengagement, the amount of information from different sources and for different reasons does not help retail investors in easily digesting the information. A consumer association pointed out that it would be important to identify and highlight vital information, possibly through infographics. Some respondents mentioned that long documents are often not read and that retail investors rely on the advisor when signing the contract or opening an account.

58. Few respondents provided examples of the documents and number of pages that their members send to clients when opening an account. They mentioned, inter alia, pre-contractual information of 50 - 100 pages, 'basic information brochures' of 200 pages, product-specific sales brochures of over 70 pages per product and annual reports of at least 40 pages.

59. Some respondents mentioned that firms take steps to make contracts, and terms and conditions more accessible and understandable. For example, by using plain language, visualisations, conducting user testing or by having industry or national standardised agreements.

### 3.6 Suitability assessment

#### *General*

60. Stakeholders broadly reaffirm the crucial role of the suitability assessment for investor protection, but often responses emphasise that it requires significant administrative work for firms and that it can be time-consuming for clients. Consumer associations report that retail investors often find the process opaque as they do not understand why so much

granular personal/financial data is needed and how the provision of this information affects the advice given. Respondents noted that some retail clients perceive questions on some topics (e.g. income, assets) as intrusive and not needed.

61. Furthermore, stakeholders acknowledge that periodic updates to client information are necessary to keep advice suitable over time, but caution that current practices can feel onerous as updates are “too frequent” and firms experience difficulties to obtain updated information. Firms note that a full re-collection of client information is not useful if the client’s situation and portfolio structure have not changed and propose a more proportionate, event-driven model, refreshing the profile only when the investment firm notes a significant change or at the client’s request, with a simple periodical confirmation of the absence of change otherwise. This approach is explicitly supported by the SMSG, which also cautions against a one-size-fits-all approach and supports flexibility for firms.
62. In terms of potential improvements, several respondents, including both industry and consumer associations, point out that the introduction of some form of a simplified suitability regime, next to the full regime currently in place, would help improve retail investors’ access to advice and would result in an investor protection regime that better caters to the different needs and circumstances of retail investors. According to these respondents, by restricting a simplified suitability regime to simple products only, the assessment could focus more on client needs or objectives and less detailed on client circumstances.
63. Moreover, some contributions called for dynamic, digital workflows (e.g. conditional questioning, pre-population of known data, event-driven refreshes) and greater standardisation, including consideration of an EU-wide standard questionnaire. These ideas aim to reduce friction and improve client understanding.<sup>13</sup>

#### *Integration of sustainability preferences in the suitability assessment*

64. Stakeholders widely agree that the integration of sustainability preferences into the suitability assessment has introduced significant complexity for both clients and advisers. Consumer associations, report that while retail investors are showing interest in investing sustainably, they face tremendous hurdles in their investor experience; whether due to lack of awareness of ESG regulatory framework or by lack of proper investment advice. They highlight that “retail investors struggled to articulate their ESG priorities”, in the way required by legislation, and only a small minority of investors find that sustainable

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<sup>13</sup> On this point, it is worth noting that MiFID II and ESMA’s suitability guidelines already allow for digital and dynamic questionnaires and already embed proportionality for non-complex products. On the other hand, mandating specific tools or a single, EU-wide template could risk a one-size-fits-all approach that constrains diverse business models, client bases and product offerings; the more pressing need may lie in implementation and supervisory convergence rather than in new prescriptive requirements.

investment options are clearly accessible to them. Financial education also remains a challenge, particularly on sustainability matters.

65. Trade associations echo these concerns, noting that according to them the current framework is excessively complex for retail investors to understand, and clients struggle to express their sustainability preferences meaningfully. Some respondents noted that over 80% of their clients state that they have no preference for sustainability, and the (complex) mapping of sustainability preferences, as regulated by legislation, deters many customers from investing in sustainable securities. Trade associations call for simplification, with some even suggesting that the collection of information on a client's sustainability preferences should be limited to the legal requirement of a single question on whether the client is interested in sustainable investments or not, with the option to raise further questions if deemed useful.
66. It is however interesting to note that responses also underline that the role of financial advisors is essential in bridging the understanding gap. Data from a national trade association shows that, when accompanied by a competent adviser, clients are capable of expressing their preferences in a meaningful and structured way. The quality of the adviser-client relationship is key to making complex sustainability themes accessible and translating preferences into concrete investment decisions.
67. Respondents, including the SMSG, noted that clients struggle to understand or articulate their sustainability preferences in practice, with particular difficulty around several aspects:
- Technical terminology: Terms such as “taxonomy alignment”, “principal adverse impacts (PAIs)”, “minimum proportion”, and references to “SFDR Articles 8 and 9” are often seen as overly complex or unclear. The SMSG stated that there is some evidence that these concepts are not only difficult for the investor, but also for advisors.
  - Distinction between categories: Clients rarely differentiate between the three product groups provided for by Article 2(7) of the MiFID II Delegated Regulation.
  - Mapping preferences to products: Many clients do not see how their answers translate into concrete product choices and are unsure whether selecting sustainability preferences will impact their returns positively or negatively.
  - Availability of products: Several respondents observed that clients' stated sustainability preferences often do not align with the products available on the market, partly because firms are not permitted to present their product offering before the client has finalised their preferences. Under the current ESMA guidelines, information about products with sustainability features can only be

disclosed after a client decides to adapt their preferences, not before. According to firms, this sequencing can lead to situations where clients initially express preferences that cannot be met, and the subsequent need to revisit and adjust those preferences may discourage engagement with sustainable investments. In this regard, some industry respondents advocate for a more flexible approach to advice, such as allowing the selection of products that are 'closely aligned' with sustainability preferences when no perfect match exists.

68. Respondents' proposals to tackle some of these issues included:

- Completing first the SFDR review, establishing clearer product categories, and then aligning the MiFID II sustainability-preference framework. This position is also supported by the SMSG. In this respect, and as already noted above, several also suggest interim flexibility (e.g. allowing recommendations that are "closely aligned" where no exact match exists and even to pause application of these MiFID requirements until the review of SFDR is completed).
- In terms of guidance, they ask ESMA to simplify the preference-collection and adaptation process, provide illustrative question sets and worked examples, and recalibrate sequencing so clients can receive neutral, high-level visibility of existing categories/products without steering their answers. The SMSG also emphasises the importance of adviser-led, plain-language conversations to help clients articulate their preferences.
- At firm level, suggestions focus on adviser-led, plain-language conversations, layered explanations and digital solutions (conditional questioning, pre-population, event-driven refresh), supported by adviser training and short client aides, measures that can be deployed within the current MiFID II requirements.

### *Suitability report*

69. Respondents, including the SMSG, acknowledge that the suitability report can support transparency and prevent mis-selling by documenting why a recommendation matches the client's profile. At the same time, many responses criticise current practice with suitability reports that are often long, standardised and jargon-heavy, which can contribute to information overload.

70. Views on usefulness diverge. A number of respondents argue that reports add little value in the form they are delivered today and are frequently ignored by clients, with suggestions to provide them only on request or to exempt firms from providing them in the case of transactions of small amount. Others underline that when the document is concise and more personalised, it helps clients understand the rationale for the recommendation and

can reinforce trust in the advisory process. The SMSG noted that, notwithstanding the existence of the suitability report, the relation between the investor's profile and the products (s)he is advised (or not advised) is not always clear to the investor.

71. While many respondents call for shorter, clearer, and more outcome-oriented suitability reports, it is important to note that the regulatory framework already enables (and indeed requires) such an approach. Existing ESMA guidance explicitly states that firms must provide individualised explanations, referring to the client's specific objectives, risk tolerance, financial situation, and relevant characteristics, and must avoid generic or standardised statements. Templates may be used, but only if they are sufficiently granular and allow advisers to add client-specific information.<sup>14</sup>
72. To address concerns about information overload, some respondents suggest making the suitability report available "on request" or after the transaction, particularly for low-value or low-risk transactions. Such approaches could be considered, provided that the core objective of transparency and mis-selling prevention is maintained, and that clients and supervisors retain access to a durable record of the advice given.

### **3.7 Appropriateness assessment for non-advised services**

73. A broad spectrum of respondents (including firms, trade and consumer associations) expressed support for the appropriateness assessments as a measure enhancing investor protection. These assessments are seen as a safeguard helping retail investors to gain a basic understanding of product-related risks, without posing significant barrier for retail investors.

74. Moreover, the key benefits identified by the respondents include:

- To support retail investors in recognizing the risks associated with specific financial instruments;
- To reduce the likelihood of retail investors' engagement with inappropriate products, particularly through the use of investor warnings.

75. However, respondents also identified several limitations of the appropriateness assessment, inter alia encompassing that:

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<sup>14</sup> ESMA notes that the continued prevalence of lengthy, formalistic, or boilerplate reports appears to reflect firm-level choices rather than regulatory constraints. In practice, nothing prevents firms from producing concise, clear, and personalised reports that genuinely help clients understand the rationale for recommendations. Further guidance from ESMA may not be necessary; rather, improved implementation and a shift in firm culture towards client-centred communication would likely be more effective.

76. Correctly answering individual questions (e.g., “What happens if you do not meet a margin call?”) may not ensure the retail investor’s comprehensive understanding of the underlying risks; and that

- The current appropriateness framework lacks a portfolio-level perspective, failing to account for the features of the client’s broader portfolio (as stated by a few industry respondents).
- Furthermore, to improve the effectiveness of the appropriateness assessment, respondents proposed the following amendments:
- Clarify the warnings and simplify the language used in the appropriateness assessment to enhance their impact for retail investor;
- Strengthen the investor education components included in the appropriateness assessment process to promote a deeper understanding of investment-related key risks;
- Expand the scope of the appropriate assessment to account for the features of the client’s broader portfolio when assessing the investment option of a financial instrument.

77. Additionally, consumer and trade associations have identified a new category of financial services that bundles payment and investment functionalities resulting in services that automatically invest small rounded-up amounts from card transactions into ETFs. Some members of both groups of associations see the potential in this innovation to foster retail investments, even though on rather small scale and not appropriate for all retail investors.<sup>15</sup> However, for the consumer associations, these innovations also raise concerns that a potential “regulatory vacuum”, i.e. regulatory gaps between payment and investment service regulation (e.g. unclarity for retail investors in which product they are investing the round-up amount of the payment transfer and which costs they incur), lead to the emergence of risks and finally to investor detriment. To address this potential issue, respondents proposed a targeted review of the existing appropriateness assessment to obtain an adequate cover of such hybrid services to ensure appropriate investor protection.

78. Additionally, many firms and trade associations reported using educational tools during client onboarding. These tools are often designed to enhance investor knowledge. However, in some cases they seem to be rather knowledge checks primarily aimed at

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<sup>15</sup> A consumer association highlighted that for retail investors who are in in short-term debt, i.e. using a current account overdraft, or have a low liquidity on their current account, it is more profitable and helpful to use available money to reduce or avoid the overdraft for which 10% or more of interest may be charged, instead of investing this amount.

expanding access to the firm's product offerings, rather than genuinely improving financial literacy.<sup>16</sup>

### 3.8 Crowdfunding

79. When focusing on retail investors engaging in crowdfunding projects, respondents highlighted that such investors tend to underestimate the frequently high-risk and illiquid nature of crowdfunding investments. Such misjudgement can make retail investor detriment more likely, particularly in light of the shortcomings in disclosures about crowdfunding related risks to investors, which respondents also observed.

80. Against that backdrop, the proposals of stakeholders to address this issue have focused on improving the quality of information on crowdfunding projects disclosed to retail investors as well as the assessment of project owners by crowdfunding service providers. More specifically, these suggestions include:

- to improve crowdfunding service providers' due diligence on project owners (on the basis of Article 5 ECSPR) to reduce the risk of fraud and enhance the disclosure of relevant information to retail investors;
- to enhance the transparency of the key investment information sheet (KIIS), inter alia, by including standardised risk warnings and a more understandable disclosure of information related to crowdlending risks (e.g. illiquidity and capital loss risks);
- to improve the content of crowdfunding service providers' investor education measures and their integration in the onboarding of clients.

81. Additionally, the respondents made suggestions to simplify and streamline the journey of retail investors engaging in crowdfunding projects, encompassing inter alia:

- To use English as universal language for the KIIS documents of crowdfunding offers to reduce translation efforts and costs;

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<sup>16</sup> ESMA would like to provide clarifications on certain aspects which stakeholders raised in their responses to the CfE. Some respondents seemed to have doubts with regards to which services and instruments the appropriateness assessment applies (and to which not). Thus, ESMA highlights that unlike the suitability assessment, which applies to investment advice and portfolio management, the appropriateness test is only conducted when a client engages in transactions without receiving personalised investment recommendations. ESMA also notes that under MiFID II, firms are not required to collect information or conduct an appropriateness assessment when retail investors purchase non-complex financial instruments on an execution-only basis (when all legal conditions are fulfilled). Furthermore, some respondents seemed critical on the requirement to keep the information of the appropriateness assessment up to date. ESMA notes that the Guidelines on the MiFID II appropriateness and execution-only requirements do not prescribe a frequency for updating the information or the way it should be collected. Instead, firms can set an appropriate frequency based on their own assessment and can also collect the information the way they see fit, such as by presenting information known to the firm to the client and ask for the client's confirmation whether this is still accurate.

- To provide one standardised KIIS for offers proposed on different crowdfunding platforms;
- To apply the same period, for instance 2 years, for the review of the entry knowledge test assessment and the loss-ability simulation for retail investors;
- To improve inclusiveness (compliance with European Accessibility Act) to allow blind, deaf, or speech-impaired persons to use the website of the crowdfunding service provider;
- To ensure that influencers included in the distribution of crowdfunding investments comply with the relevant EU and national rules.

82. Furthermore, respondents proposed to broaden access to crowdfunding for retail investors by allowing appropriately qualified financial advisers to provide advice on such investments to retail clients.

### 3.9 Other topics

#### *Balancing investor protection and risk-taking*

83. The SMSG and other respondents noted that striking the right balance between investor protection and allowing retail investors to take informed risk is challenging.

84. Firms and trade associations usually felt the framework is too geared towards protection, too paternalistic and limiting client choice and an “enjoyable” investor experience. Industry respondents note for example, that appropriate consideration should be given to the balance between risks and rewards as it is crucial for investors to understand that channelling money to productive investments can foster their wealth due to the higher returns that investors can enjoy. Industry also considers that too many “checks” are required, and that too frequent and complex risk warnings need to be provided to clients, disincentivising many from investing.

85. While many industry respondents state that the current regulatory framework risks overemphasising consumer protection and being based on a fundamental misunderstanding of the mindset of retail investors, it was also noted that there is a need for regulatory stability now in order to create more trust. It was also noted that changing rules, even if the intention is “simplification” may be complex, creates costs and legal uncertainty for operators and is a barrier to competitiveness and innovation.

86. Nonetheless, many industry respondents suggest amending MiFID II to introduce a new category of clients: semi-professional clients. They argue that the eligibility requirements

for this category should be less stringent than the current criteria that retail clients must meet if they opt to be treated as professional clients under Section II of Annex II of MiFID II.<sup>17</sup>

87. It was also argued by some firms and associations that complexities introduced by level 3 texts such as guidelines and Q&As harm the fluidity of the customer journey.
88. Consumer associations also broadly argue, for different reasons, that the current regulatory framework does not yet strike the right balance between investor protection and enabling informed risk-taking. They note that while MiFID II sets out important safeguards, these are seen as implemented by firms and supervised by NCAs in a way to be largely procedural often disconnected from real investor outcomes. Consumer associations note that, notwithstanding the many rules in place, retail investors continue to face biased advice, restricted access to cost-effective products, and disengagement due to complexity, mistrust, and lack of comparability. Consumer associations note that a more effective regulatory framework would focus on aligning the incentives for industry participants with retail investor interests.
89. Consumer associations further stress that retail investors interest could be better protected by harmonising supervisory practices across the EU.

*Other topics not directly covered by this Call for Evidence*

90. Respondents to the Call for Evidence highlighted some areas of the retail investor experience that are not fully captured by the current framework.
91. First, some pointed to digitalisation and online distribution, including gamification features, the use of influencers/finfluencers, and increasingly aggressive digital marketing, as vectors that can amplify risk-taking without corresponding understanding. Concerns include design choices that optimise “engagement” rather than informed consent, the opacity of algorithms, and challenges for cross-border supervision of mobile-first journeys.
92. Respondents also raised the fitness of product governance rules for plain-vanilla instruments (e.g. simple bonds and, in some cases, equities). They argued that applying these MiFID requirements (together with the PRIIPs requirements as also mentioned in paragraph 43) has de facto impeded distribution of these financial instruments and has reduced choice for retail investors.

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<sup>17</sup> On this suggestion, ESMA notes that adding another client category could run counter to the overall goal of simplification and reduction of regulatory burdens, which respondents generally seek (also taking into account that any additional category should be matched with a tailored regime for provision of services to these clients).

93. A recurrent theme across submissions is regulatory divergence – notably national gold-plating and “proliferation” of (national) soft law (guidelines, Q&As, circulars) – which has created uneven application of EU requirements and fragmented the investor experience across Member States. Respondents asked for greater convergence to reduce friction and improve predictability for firms and investors.
94. Finally, as already mentioned above, consumer associations stressed that, despite the rules, structural incentives (e.g. inducements) may continue to steer investors towards higher-fee offerings, while independent, neutral advice remains uncommon. They suggested a greater outcome-orientation in rule-making, supervision and enforcement to ensure that firms actually deliver quality outcomes for retail investors.

## 4 Enhancing the investor journey: follow-up actions

95. The responses to the CfE show that there is not a single key obstacle in the investor journey and, instead, multiple factors, of regulatory and non-regulatory nature, together may create barriers for people to start investing.
96. This section outlines a set of potential technical actions and operational enhancements that ESMA will explore building on the feedback received through the CfE. The focus of these ideas is to make it easier for retail investors to access suitable investment opportunities, with a particular emphasis on simplifying processes and combatting information overload. It is important to note that the areas outlined in this section do not constitute final positions or an exhaustive list of future actions. Furthermore, the insights gathered will inform longer-term strategic discussions and potential proposals on the overall framework.
97. **This section provides some suggestions on how ESMA will use the feedback received:**

**(i) to shape future technical advice** on the MiFID II delegated acts with the aim to improve MiFID Level 2 requirements, when appropriate, and

**(ii) update ESMA guidelines and other “Level 3” guidance.**

In principle, this work will be undertaken once the legislative process on the **Retail Investment Strategy (RIS)**<sup>18</sup> is concluded, so that any changes to the Level 1 can be fully integrated and duplications or inconsistencies avoided. Furthermore, many of these topics

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<sup>18</sup> Please note that the final text of the RIS was not published yet when this report was drafted. Therefore, the topics listed in this section are subject to the final legislative outcome, including any related mandates addressed to ESMA by the Commission.

would first require amendments to the MiFID II delegated acts, which is the reason why ESMA will stand ready to provide technical advice, for Commission's consideration.

98. ESMA will support the Commission in its Level 2 work and will develop Level 3 work, to **streamline disclosure requirements** and tackle **information overload**, by:

- Making disclosures (such as on cost and charges) clearer and better timed in digital journeys, using layered, concise presentation, clarifying when ex-ante and ex-post information should appear, and streamlining overlaps with PRIIPs/UCITS to reduce duplication and burden.
- Calibrating **periodic reporting** so that quarterly statements are provided only to clients without access to near real-time information online, reducing duplication and improving relevance, while easing operational burden for firms.
- Pushing for a **digital-first approach** for information on key firm policies: allowing firms to meet obligations by making best-execution and conflicts-of-interest policies freely accessible on their website rather than personally addressing them to each client.
- Developing **best practices** – together with industry – **on layering of information** and how to effectively disclose information (especially in mobile environments). By embracing digital tools and layering, firms could provide a more intuitive and empowering disclosure experience, helping investors focus on what matters most, without being overwhelmed by unnecessary detail.
- Addressing the impact of **local language requirements** for KIDs and KIIS documents on the availability of cost-efficient instruments and crowdfunding investments in Member States, aiming to improve investor access while reducing unnecessary complexity for firms.

99. ESMA will support the Commission in its Level 2 work, and update relevant Level 3 guidelines, to **reduce the complexity in the area of suitability and appropriateness**, while maintaining investor protection, by:

- Streamlining further the collection and regular update of client information for **suitability** assessments, avoiding unnecessary updates where no material change has occurred, and consider introducing further proportionality for the distribution of lower risk or less complex products.
  - i. Promoting the wider use of **digital tools** (including digital questionnaires) within MiFID II's technology neutral framework, reaffirming their

acceptability within the current rules, eliminating perceived barriers, and, where helpful, providing non-binding examples (while avoiding prescriptive design requirements).

- ii. Exploring further proportionality for simpler products and distribution models.

100. ESMA will support the Commission in simplifying and improving the MiFID II **requirements on sustainability**, including:

- i. Significant simplification of the definition of “sustainability preferences”, aiming to link them (where possible) to any new product categories developed under the SFDR review.
- ii. Reducing operational complexity in the entire cycle of collection, adaptation and update of client sustainability preferences.
- iii. Supporting financial education efforts on relevant sustainability topics.

101. **ESMA will strengthen monitoring and oversight of emerging (social) media channels and affiliate marketing models (including influencers)**, and take forward measures to address the associated risks and opportunities, including through financial education initiatives and supervisory convergence activities.

102. **Besides the individual measures and proposals, it is important to note the importance of consumer testing exercises** to inform and validate improvements in disclosure practices and related measures. Consumer testing appears crucial to ensure that requirements do not unnecessarily burden firms without providing corresponding benefits to clients and to the ability to deliver on the regulatory and policy objectives.

These exercises would focus on ensuring that information is presented in a way that is clear, accessible and effective for different investor profiles, including (i) mobile-first or mobile-only users and (ii) users of crowdfunding platforms. The insights gained would underpin the updates to guidelines and the development of technical advice referred to above. Areas that could be covered include:

- Presentation, relevance and timing of key information, including costs and charges, risk warnings and performance information, across digital channels (mobile and non-mobile). This will include assessing the effectiveness of layered disclosures and their impact on comprehension and decision-making.
- Framing and collection of sustainability-related choices, to ensure clarity, comparability and meaningful recording of “sustainability preferences”.

- Comparability of product information for investment products (including crowdfunding investments), including readability and multilingual aspects.
- Behavioural design features and safeguards, evaluating the role of nudges and protections against dark patterns across digital user journeys.

103. Finally, it is important to underline once again that **effective supervision** and, where necessary, **enforcement** remain essential prerequisites for the correct functioning of the regulatory framework and for ensuring a high level of investor protection. Robust supervisory practices are critical to translate legislative and policy measures into credible and tangible outcomes for retail investors and to maintain trust in EU financial markets. In this context, it is also crucial that national competent authorities, through their supervisory activities, ensure that firms do not only comply with requirements but also do not engage in a purely formalistic or box-ticking application of regulatory requirements. A lengthy, technical and complex disclosure where a short disclosure in plain language is required simply does not meet the requirements. Genuine engagement to this approach by supervisors is key because, without such a focus on substance over form, even well-intentioned changes to the framework will fail again to deliver real improvements for investors and their conscious participation in capital markets.

## 5 Annexes

### 5.1 Annex I - Advice of the Securities and Markets Stakeholder Group

104. ESMA also sought the advice of the SMSG. The SMSG provided its advice<sup>19</sup> and made the following general remarks:
105. *“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.*
106. *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.*
107. *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.*
108. *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.*
109. *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*

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<sup>19</sup> [ESMA24-229244789-5395 SMSG advice on the Call for Evidence on the Retail Investor Journey](#).

*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).*

110. *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.*

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

112. The SMSG also had specific remarks on the guidelines that are summarised and addressed in the body of this Report.