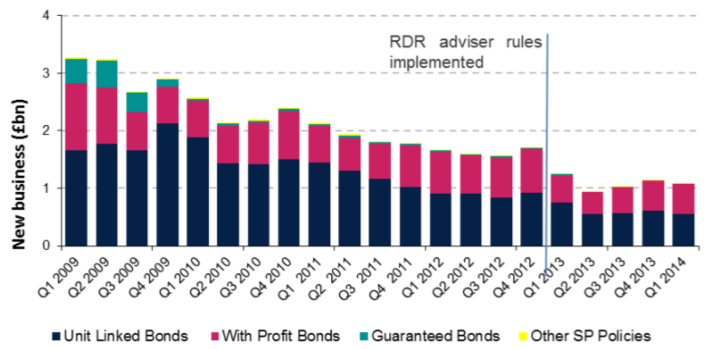
**G: Would you suggest changes to the disclosure regime on inducements so that investors or potential investors, especially retail ones, are better informed about possible conflicts between their interests and those of their investment service provider due to the MiFID II disclosure requirements in relation to inducements?**

BEUC believes that attempts to address conflicts of interests or commission bias through disclosure do not work, and has called for a ban on commission to be implemented in the EU for advice on retail investment products and complex financial products (see position paper on the Price of Bad Advice). Recognising the conflicts of interests inherent in commission-based financial advice, the UK and the Netherlands both implemented commission bans for advice on retail investment products in 2013. Reviews carried out by the UK and Dutch authorities since the implementation of their bans show the profound impact the reforms have had in reducing product bias and conflicts of interest for financial advisers.

For instance, a 2014 study commissioned by the FCA found that the UK commission ban implemented following the UK's Retail Distribution Review (RDR) reduced conflicts of interests for advisers and significantly reduced product bias. This was evident from a decline in the sale of products which attracted high commissions pre-RDR, and an increase in the sale of those products which attracted lower or no commissions before the entry into force of RDR. For instance, following the entry into force of the commission ban, there was a significant decline in the sale of investment bonds (which used to attract high commissions up to 7.5% of the initial invested amount):

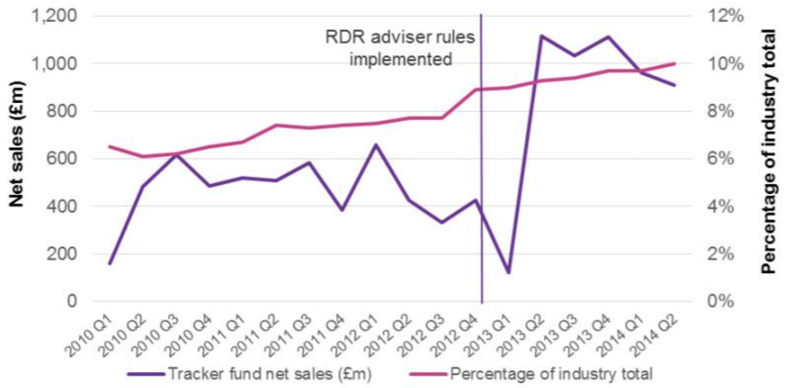
**Table 6.3: Decline in investment bonds**




Source: Association of British Insurers (2014). Note data refer to ABI members only.

There was also a move towards lower-cost products (which did not used to attract high commissions pre-RDR), with advisers increasingly recommending such products to consumers. For instance, the sales of tracker funds increased dramatically post-RDR, from approximately £400m in 2012 to £1,000m at the beginning of 2013 (RDR entered into force in Q1 2013):

**Figure 6.3: Tracker fund net sales and percentage of total funds under management**




Source: IMA.

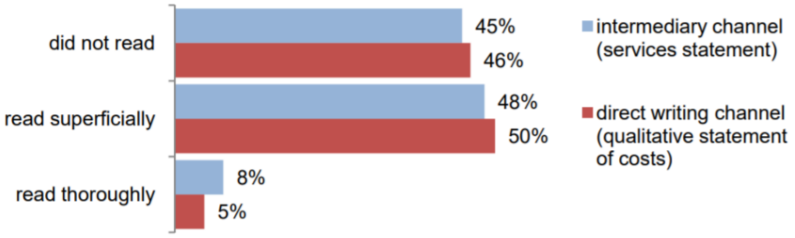
The study concluded that the ban on third-party commissions appeared to have reduced product bias, and that product manufacturers who sold lower or no-commission products prior to the RDR are now “competing on a more equal basis.” The study finally also concluded that “consumers who are receiving full advice now are more likely to be receiving better advice due to advisers being better qualified and the reduction in product bias.” A commission ban would reduce conflicts of interest for advisers and encourage the distribution of lower-cost investment products to consumers.

**H: What impact do you consider that the MiFID II disclosure requirements in relation to inducements have had on how investors choose their service provider and/or the investment or ancillary services they use (for instance, between independent investment advice and nonindependent investment advice)?**

In theory, remuneration transparency should discourage advisers from recommending products with unacceptably high commission, or allow consumers to choose less costly advice. However, in practice, consumers find it difficult to understand how commissions may affect the independence of advice, and they may not have the required knowledge to adjust for the disclosed conflict of interest. For instance, a recent survey by the Central Bank of Ireland of consumers who recently sought financial advice shows that a majority of respondents were completely unaware of any *ongoing* commission payment to financial advisers. The survey also found that 39% of respondents believed that financial services laws require financial advisers to be paid the same level of commission for the sale of all products (even though this is not the case).

There is little evidence to suggest that commissions disclosure has a meaningful impact on the behaviour of consumers. For instance, a study carried out on behalf of the Dutch government in 2010 on commission disclosure rules related to complex financial products, found that commission transparency had only limited impact on the decision-making behaviour of consumers: “obtaining information is one step; converting that information into understanding and action, which is what transparency ultimately involves, is another.” The research found that consumers who purchased complex investment products rarely carefully considered the ‘services statement’ provided to them during the financial advice process. The ‘services statement’ included detailed information about the level of remuneration paid to the financial adviser. According to a survey carried out as part of this study, only a small number of consumers thoroughly read the document:

Figure 4-3: A minority of consumers read through the information about costs and services thoroughly




Source: SEO/TNS Nipo 2010

The Dutch Ministry of Finance argues that: “Remuneration transparency is an important first step. However, it appears that even if consumers are informed, they do not always act upon this information by shopping around for less costly and more unbiased advice.”

Similarly, in the United Kingdom, the UK Financial Services Authority found little evidence to suggest that disclosure regimes assist consumers in their decision-making when seeking financial advice. Prior to the commission ban in the UK, firms were required to disclosure the maximum commission that they could receive for recommending a particular product, as well as the market average for a range of products in the form of an ‘initial disclosure document’. In 2007, a study commissioned by the UK’s FCA, found no consistent evidence that commission disclosure led to decreases in commission rates. In fact, the study found evidence that commission rates actually increased following enhanced disclosure for 8 out of the 11 product categories covered by the disclosure requirement (p. 28. *“Table 5 shows that there is no consistent evidence that mean commission rates fell following the implementation of the menu. In fact, of the 11 product categories the menu covers, there were increases in mean commission rates in 8 categories”).*