

## Call for Evidence on Retail Investor Protection

**Q1: Please insert here any general observations or comments that you would like to make on this call for evidence, including any relevant information on you/your organisation and why the topics covered by this call for evidence are relevant for you/your organisation.**

Schroders is a global asset manager, with significant focus on the EU (approx. 20% of our AuM). We use our Luxembourg fund ranges for global distribution and, within the EU, we offer funds and portfolio management services through intermediaries. While we do not provide services directly to retail investors, our funds may ultimately be held by such customers, so we take a significant interest in how this part of the market operates and ensuring that the interests of end investors is at the forefront of our thinking.

We could not agree more with the objective to “reflect on how the rules work from a retail investor perspective”, as stated in the overview of the call for evidence. In this respect, we would like to repeat our comments to the Commission’s consultation on a Retail Investment Strategy earlier this year:

The main reason the investor protection framework is not achieving its objective so far is that regulatory thinking has so far been too focused on products, disclosures and “accessibility.” We strongly believe any framework must start with the needs and aspirations of individuals. If we can draw an analogy: It is a bit like working on different car models, how the car booklet/instrument panel should look like and where car dealers should be located, without asking for which purpose the driver needs a car or showing drivers how to drive a car.

What we need to do is engage individuals in thinking about their money, nudging them, and supporting them, particularly at points in their lives when they are open to such engagement. Managing finance, particularly when thinking in the long term can involve a wide range of different considerations and can be quite complex, so even the most sophisticated will need support and advice. Such support and advice should be available in a way that people can trust and not feel that they are being “sold” to.

We also need to talk finance with people in a language and form they understand and want to engage with. This requires again focus on the consumer perspective, rethinking existing disclosure requirements such as PRIIPs (which are not working either in terms of content or delivery), embracing technology, being clear about risks, speaking in plain language and benefiting from behavioural findings (nudges), accepting the complexities involved and not seeking out “false simplicity”.

Reliance on disclosure and investor protection becomes mostly relevant once an individual has reached the “point of sale”, but completely ignores the point that we need to get people interested in financial engagement in the first place.

Schroders is looking forward to providing further input to the discussion on retail investment, making rules and infrastructure fit for the challenges ahead.

**Q2: Are there any specific aspects of the existing MiFID II disclosure requirements which might confuse or hamper clients' decision-making or comparability between products? Are there also aspects of the MiFID II requirements that could be amended to facilitate comparability across firms and products while being drafted in a technology neutral way? Please provide details.**

We do not believe the existing MiFID II disclosure requirements confuse, or hamper clients' decision making or necessarily hamper comparability between products. In terms of investing in funds, in this often highly intermediated market, retail investors will generally not just buy a single fund direct from the manufacturer, but, if buying on an execution-only basis, will do so via MiFID authorised platforms or, if advised, rely on suitability rules applicable to the adviser. The platform provider or adviser must provide relevant information on competing products to allow for relevant comparisons to be made between products (please see our answer to question 3 detailing the relevant rules).

The main issues are the additional requirements of the PRIIPs Regulation, particularly the requirement to express charges as a reduction in yield (where MiFID does not require this but requires costs to be expressed as an actual cost (as a proportion of assets), and the different calculation of implicit transaction costs (on the latter, please see our "manual" to help investors navigate and avoid common pitfalls <https://www.schroders.com/en/hk/institutional-service/insights/thought-leadership/the-transaction-costs-manual-our-how-to-guide-to-a-complex-topic/> ).

In respect of comparability, we agree comparability is needed but this should not come at the expense of comprehensibility or masking the characteristics of different products.

In respect of implicit transaction costs, we note that the MiFID rules exclude those costs "not caused by the occurrence of underlying market risk" (article 24, paragraph 4, last paragraph) meaning the use of slippage in PRIIPs, which includes market movement and so which leads to the possibility of negative transaction costs, is not consistent with the MiFID Level 1 rules. We would strongly disagree with any change to the MiFID text to align with the interpretation of implicit transaction costs in PRIIPs. Rather, the PRIIPs Regulation should be aligned with the MiFID Level 1 text.

**Q3: Are there specific aspects of existing MiFID II disclosure requirements that may cause information overload for clients or the provision of overly complex information? Please provide details.**

We consider the MiFID disclosure requirements to be reasonable and would not, in themselves, see information overload to clients. However, the need for MiFID authorised intermediaries to offer a PRIIPs KID or UCITS KIID document by virtue of those regulations does seem to be superfluous and could be seen to overload their client, particularly where a portfolio of funds is involved. The study produced by Deloitte for the European Commission ([https://ec.europa.eu/info/publications/180425-retail-investment-products-distribution-systems\\_e](https://ec.europa.eu/info/publications/180425-retail-investment-products-distribution-systems_e) ) highlighted the fact that clients do not spend much time looking at the KID/KIID documents. We believe this is because the detailed requirements on service providers and advisers under MiFID means these disclosures are made to clients in a more user-friendly way. The introduction of non-advised platforms over the last 10 to 20 years has meant most fund providers do not now sell funds directly, rather they use a MiFID intermediary.

Where a MiFID service is being provided MiFID II requires both overall cost of the service and a breakdown of costs to the client (article 24 para. 4). The MIFID Implementing Directive (2017/565) Article 50 provides more detail.

Furthermore, when considering the general information requirements contained in MiFID article 24 para. 4 ("Appropriate information in good time of the financial instruments, investment strategies..."), article 48 para. 1 of the MiFID Implementing Directive (2017/565) requires investment firms to provide, in relation to the instruments, information as to how the financial instrument performs in different market conditions and article 48 para. 2 the risks associated with the financial instrument.

Hence the three main elements of disclosure, costs, risks and performance required by the PRIIPs KID (and UCITS KIID) are already captured by MiFID requirements for investment firms.

One solution to information overload could be to require a PRIIPs KID to be produced only where the PRIIPs manufacturer is selling direct (which is rare and why product providers provide the necessary standardised regulatory information in a machine-readable way via the European PRIIPs Template and European MiFID template). Put another way, MiFID could state that cost and risk information should be standardised and provided to distributors but without the requirement to produce a specific document. It could be left to the MiFID intermediary to provide information in a way that it believes best fits with its clients – be that a non-advised platform or an advised relationship. That information would need to be recorded for compliance purposes.

Importantly, existing MiFID rules on showing past performance are fit for purpose. We would strongly object to rules prohibiting past performance being introduced.

**Q4: On the topic of disclosures, are there material differences, inconsistencies or overlaps between MIFID II and other consumer protection legislation that are detrimental to investors? Please provide details.**

Please see our answers to Q.2 and 3 above in terms of differences and overlaps.

It is our understanding that the European Commission has already awarded a tender to look into exactly this issue: <https://ted.europa.eu/udl?uri=TED:NOTICE:107711-2020:TEXT:EN:HTML>.

According to the tender's technical specifications one of the objectives is to: *"identify potential redundancies, inconsistencies, overlaps and gaps in the regulatory disclosure, suitability assessment and inducements-related rules in scope, using a mapping of the relevant rules as a basis"*. We look forward to reviewing the results of this tender.

**Q5: What do you consider to be the vital information that a retail investor should receive before buying a financial instrument? Please provide details.**

See our answer to Q3. The information needed will depend on the stage of decision-making which the investor has reached. The information will need to become more granular as the investor gets closer to a decision to invest. Focus until now has been on "point of sale" by which point the investor has already made a decision to invest, but thought also needs to be given to the information needs at an earlier stage – e.g. information about the "risk of not taking risk" and the benefits of investment as against leaving money in a bank account.

When it comes to point of sale, we would accept that providing information on costs, risks and performance of financial instruments is necessary for a retail investor to have a good understanding of the products either being recommended or provided to them.

Information on guaranteed returns and capital protection is very important for products that offer these features but not for other products. Forward looking performance is very relevant for structured products but not for non-structured products since it can be misleading as in that case forward looking performance would be entirely fictional.

There should be some indication of whether the product has a fixed term and what the penalties would be for early redemption/surrender or, where relevant, an indication of limitations there might be on liquidity (ease of converting to cash at the request of the investor) but investors should also understand that any such information is highly dependent on market conditions. Descriptions of potential risks are also helpful, although it needs to be borne in mind that this should not be over-simplified. While, for example, volatility is one measure of risk, it is not the only one.

We would also like to stress that many retail investors are not just looking to buy a single financial instrument, but a range of instruments to make up a portfolio – or they may be “buying” a model portfolio. This can result in a long stack of individual key information documents being presented to them which will not be individually relevant to them. The important thing for them is going to be the overall effect, risk, cost, performance etc. of the portfolio. So it is not, for example, the risk profile of the individual financial instrument that matters, but the overall risk.

**Q6: Which are the practical lessons emerged from behavioural finance that should be taken into account by the Commission and/or ESMA when designing regulatory requirements on disclosures? Please provide details and practical examples.**

Although we do not have our own specific insights concerning disclosures, we very much welcome the desire to learn from behavioural finance and other consumer insights when developing policy, not only in relation to disclosures, but more broadly in terms of engaging individuals with their money, nudging them to act, making positive use of inertia (e.g. through such approaches as auto-enrolment into pensions), and helping people to understand their own biases and how this might affect the way they manage their money.

We have our own tool, Invest IQ (see <https://www.schroders.com/en/insights/invest-iq/investiq/>) which is designed to help individuals to understand how their own behaviour may affect their investment choices. We offer explanations in video format to highlight the client's investment personality.

What we have learned from InvestIQ is that investors globally suffer from an ambiguity bias which can prevent them from taking risks with their investments and potentially lower their returns, but this bias differs significantly between countries and gender, see:

- <https://www.schroders.com/en/insights/economics/investing-iq-test-reveals-the-traits-that-could-limit-returns/>
- <https://www.schroders.com/hu/uk/private-investor/insights/markets/the-bias-of-uk-investors-that-could-lead-to-lower-returns/>,
- <https://www.mirror.co.uk/money/mistake-young-women-make-could-18804732> and

- <https://www.moneylens.com/topics/investing/what-the-zara-polka-dot-dress-has-to-do-with-investing>

Another interesting finding from our Global Investor Survey shows that individuals' behaviour has changed in reaction to the pandemic (see <https://www.schroders.com/en/insights/global-investor-study/2021-findings/risk-hub/> and <https://www.schroders.com/en/insights/global-investor-study/2021-findings/investing-hub/> ).

Until now, disclosure requirements have not been taking into account cultural or gender differences nor do they react to significant societal changes, to the detriment of individual investors. Hence we urge policy makers to look much more into scientific insights to improve any regulation concerning engagement with individual investors.

**Q7: Are there any challenges not adequately addressed by MIFID II on the topic of disclosures that impede clients from receiving adequate information on investment products and services before investing? Please provide details.**

We have previously commented on the need for MiFID to adequately address digitalisation and embrace technological change. We note and welcome the recent changes adopted by EU 2021/338 (MiFID Quick fix) which will phase out paper-based default method of communication, coming into effect early next year.

**Q8: In case of positive answer to one or more of the above questions, are there specific changes that should be made to the MiFID II disclosure rules to remedy the identified shortcomings? Please provide details.**

As we indicated in our answer to Q2 and Q3 we do not see a change is required to MiFID rules rather we see a necessary change to the PRIIPs requirement to offer a PRIIPS KID when such key information is already addressed and provided by MiFID rules. We think providing the information in different ways (for example costs as a reduction in yield in PRIIPs compared to a percentage figure in MiFID) need rectifying.

**Q9: On the topic of disclosures on sustainability risks and factors, do you see any critical issue emerging from the overlap of MiFID II with the Sustainable Finance Disclosure Regulation (SFDR) and other legislation covering ESG matters?**

The most critical issue at the moment is that MiFID II rules become applicable before it will be possible to assess and disclose taxonomy-related information based on company data. We would urge policy makers and regulators to find a pragmatic solution in cooperation with the industry to avoid any misleading information to be disclosed to retail investors before the data gap is closed, as well as to align timelines between SFDR Level 2 and MiFID II Level 2.

**Q10: Are there any other aspects of the MiFID II disclosure requirements and their interactions with other investor protection legislations that you think could be improved or where any specific action from the Commission and/or ESMA is needed?**

Please see our answer to Q2 and Q3 where we see a necessary change to the PRIIPs requirement to offer a PRIIPS KID when such key information is already addressed and provided by MiFID rules.

**Q11: Do you have any empirical data or insights based on actual consumers usage and engagement with existing MiFID II disclosure that you would like to share? This can be based on e.g., consumer research, randomized controlled trials and/or website analytics.**

Given that we do not generally deal direct with retail investors, we have no data or insights relevant to MIFID disclosure requirements.

**Q12: Do you observe a particular group or groups of consumers to be more willing and able to access financial products and services through digital means, and are therefore disproportionately likely to rely on digital disclosures? Please share any evidence that you may have, also in form of data.**

Although we do not have our own specific insights concerning disclosures, findings from our Global Investor Survey 2021 show that while overall 19% of respondents use social media from which to get financial advice, numbers differ between age groups (22% for the age bracket 18-35 vs 14% for the age bracket 51-70), investment knowledge (17% for beginners vs. 23% for experts) and retirement status (19% for non-retired vs. 14% for retired), but are stable between male and female (18% vs 19%).

**Q13: Which technical solutions for digital disclosures (e.g., solutions outlined in paragraph 27 or additional techniques) can work best for consumers in a digital – and in particular smartphone – age? Please provide details on solutions adopted and explain how these have proven an effective way to provide information that is clear and not misleading.**

We welcome this question since we believe policymakers need to take notice and make the most of what technology has to offer to ensure that regulated disclosure is communicated effectively instead of being dismissed as the “small print”.

Clever use of technology can provide a better solution for consumers instead of being confronted with a rigid three-page document. For example, they could use an interface that:

- Allows personalisation to adjust for each person’s individual preferences for things like length of holding period and initial invested amount.
- Has customisable presentation allowing the choice of how key information is presented, e.g. in charts or tables.
- Presents content in layers to not intimidate consumers with large blocks of text.

Such functionality invites people to interact with the content that they see, thus increasing the chances that they will understand it and use it. To say nothing about its user-friendliness on different devices such as smartphones and tablets.

Schroders has been working towards building a digital solution for our clients and all external stakeholders worldwide (please see our Global Fund Centre at <https://www.schroders.com/en/lu/professional-investor/fund-centre/gfc/fund/search/filter/>).

This is being set up as an online library of all funds. Each fund has a unique page showing the main characteristics in a way that is compliant with regulation and can be easily modified to reflect any regulatory changes in the future. Moreover, the page design is being developed in a way that will allow clients to personalise the information that they see and compare between different funds. This is not exactly an ‘interactive’ KID but it is not a million miles from it either. Users of online fund platforms will be familiar with this type of functionality.



More details can be obtained from our paper produced on the future of client communications (see <https://www.schroders.com/en/uk/asset-manager/insights/markets/the-future-of-client-communications/>).

**Q14: Would it be useful to integrate any of the approaches set out in paragraph 27 above in the MIFID II framework? If so, please explain which ones and why.**

We agree with the approaches set out in paragraph 27. But care is needed not to be too prescriptive in terms of regulation. A principles-based approach is needed.

For example, a requirement for readability is reasonable (although if it were not readable we would suggest this would fail the overarching MiFID level 1 requirement that the communication needs to be “clear”). But we would suggest that e.g. imposing a specific font size is not required.

**Q15: Should the relevant MIFID II requirements on information to clients be adapted in light of the increased use of digital disclosures? If so, please explain how and why.**

We would suggest guidance should be provided where necessary to ensure digital disclosures may be made where there are interpretational issues. But we see no strong arguments to amend the Level 1 text or detailed implementing rules.

**Q16: Do you see the general need for additional tools for regulators in order to supervise digital disclosures and advertising behind ‘pay-walls’, semi-closed forums, social media groups, information provided by third parties (i.e., FINfluencers), etc? Please explain and outline the adaptations that you would propose.**

We are not clear what powers the regulators feel they lack now in order to deal with such situations. We would note, however, that issues have arisen where investors are drawn, through search engines or social media, to fraudulent websites posing as legitimate ones. We believe that it will be important for legislators and regulators to be alive to these and to have powers to protect individuals who might be persuaded that they are dealing with a legitimate financial services firm when they are, in fact, being drawn in to give money to fraudsters.

**Q17: To financial firms: Do you observe increased interest from retail investors to receive investment advice through semi-automated means, e.g., robo-advice? If yes, what automated advice tools are most popular? Please share any available statistics, data, or other evidence on the size of the market for automated advice.**

Since we do not deal directly with the end customer we have no comment on this question.

**Q18: Do you consider there are barriers preventing firms from offering/developing automated financial advice tools in the securities sectors? If so, which barriers?**

Since we do not deal directly with the end customer we have no comment on this question.

**Q19: Do you consider there are barriers for (potential) clients to start investing via semiautomated means like robo-advice caused by the current legal framework? If so, please explain and outline what you consider to be a good solution to overcome these barriers.**

Since we do not deal directly with the end customer we have no comment on this question.

**Q20: In case of the existence of the above-mentioned barriers, do you have evidence of the impact that they have on potential clients who are interested in semi-automated means? For instance, do they invest via more traditional concepts or do they not invest at all?**

Since we do not deal directly with the end customer we have no comment on this question.

**Q21: Do you consider the potential risks and opportunities to investors set out above to be accurate? If not, please explain why and set out any additional risk and opportunities for investors.**

Whilst we do not deal directly with the end customer the list of potential risks and opportunities would appear accurate.

**Q22: Do you consider that the existing MiFID regulatory framework continues to be appropriate with regard to robo-advisers or do you believe that changes should be added to the framework? If so, please explain which ones and why.**

Since we do not deal directly with the end customer we have no comment on this question.

**Q23: Do you think that any changes should be made to MiFID II (e.g., suitability or appropriateness requirements) to adequately protect inexperienced investors accessing financial markets through execution only and brokerage services via online platforms? If so, please explain which ones and why.**

We consider the current balance between the requirements for when suitability must be provided and when appropriateness tests are able to be used as reasonable. Complex products should not be sold unless investors have shown they have appropriate knowledge of the products they wish to buy. That said we would question the current interpretation of non-UCITS retail schemes by ESMA suggesting that in all cases these should be treated as “complex products”. Such products should only be treated as such if they fail the 6 tests detailed in the implementing regulations.

#### **Q24-35**

We have no comment.

**Q36: Do you observe an increasing reliance of retail clients on information shared on social media (including any information shared by influencers) to base their investment decisions? Please explain and, if possible, provide details and examples. Do those improve or hamper the decision-making process for clients?**

Findings from our Global Investor Survey 2021 show that while overall 19% of respondents use social media to get financial advice from, numbers differ between age groups (22% for the age bracket 18-35 vs 14% for the age bracket 51-70), investment knowledge (17% for beginners vs. 23% for experts) and retirement status (19% for non-retired vs. 14% for retired), but are stable between male and female (18% vs 19%).

Given that there's a significant number of investors using social media for investment advice, the question is probably not whether this improves or hampers the decision-making process but how social media can be used positively to engage with retail investors on financial issues (not primarily to sell products, but to increase financial literacy and interest in financial health) and to avoid any abuse. The former would entail more reflection on digital disclosures and different



forms of communication in a digital environment (see also Q13 and our paper produced on the future of client communications: <https://www.schroders.com/en/uk/asset-manager/insights/markets/the-future-of-client-communications/>). On the latter, there's a growing concern on on-line fraud. We see increasingly cases of fraudulent sites "posing as" or "cloning" legitimate ones and defrauding people of their money.

**Q37: What are, in your opinion, the risks and benefits connected to the use of social media as part of the investment process and are there specific changes that should be introduced in the regulatory framework to address this new trend?**

Social media can be used positively to increase engagement with retail investors on financial issues (not primarily to sell products, but to increase financial literacy and interest in financial health). This would entail more reflection on digital disclosures and different forms of communication in a digital environment (see also Q13 and our paper produced on the future of client communications: <https://www.schroders.com/en/uk/asset-manager/insights/markets/the-future-of-client-communications/>).

On the risk side, there's a growing concern on on-line fraud. We see increasingly cases of fraudulent sites "posing as" or "cloning" legitimate ones and defrauding people of their money.

**Q38: Are you aware of the practices by which investment firms outsource marketing campaigns to online platform providers/agencies that execute social media marketing for them, and do you know how the quality of such campaign is being safeguarded?**

We have no comment.

**Q39: Have you observed different characteristics of retail clients, such as risk profiles or trading behaviour, depending on whether the respective client group bases their investment decision on information shared on social media versus a client group that does not base their investment decision on social media information? Please elaborate.**

We have no comment.

**Q40: Do you have any evidence that the use of social media (including copy/mirror trading) has facilitated the spreading of misleading information about financial products and/or investment strategies? Please elaborate and share data if possible.**

Please see comments, in response to Q16, about imposter websites to which individuals may be drawn through search engines or social media.

**Q41: Have you observed increased retail trading of 'meme stocks', i.e. equities that experience spikes in mentions on social media? Please share any evidence of such trading and, if possible, statistics on outcomes for retail investors trading such instruments. -> no comment**

We have no comment.

**Q42: Do you consider that the current regulatory framework concerning warnings provides adequate protection for retail investors? If not, please explain and please describe which changes to the current regulatory framework you would deem necessary and why.**

We consider that the current framework concerning warnings is reasonable for our business – investment management services and fund management.

**Q43: Do you believe that consumers would benefit from the development of an ‘open finance’ approach similarly to what is happening for open banking and the provision of consumer credit, mortgages, etc? Please explain by providing concrete examples and outline especially what you believe are the benefits for retail investors.**

Yes, we believe consumers would benefit from an “open finance” approach and agree with the conclusion of the High Level Forum on Capital Markets Union that open finance could allow individuals and their financial advisors to have, in one place, a comprehensive view of their financial situation and all the information they may need to go through the financial planning process. This could potentially reduce the cost of the financial planning process because it avoids the need for an adviser to spend time going through the client’s records, or writing to a range of providers to gain up to date information about the individuals’ financial position. Such cost savings should be passed onto the client.

In terms of how that information is used, we consider this would depend on the business model of the financial planner/adviser. In some cases the conclusion could be that the client needs to take appropriate action such as to take out a life insurance policy, to increase their contribution to their retirement savings and/or invest in securities. One business model might then be such that the client takes that information away with them and shops around themselves, on an execution only basis, with the providers and specialist advisers of their own choice. Another might be that the client is then supported (either by a person, or robo-adviser) through the process of buying the life policy, but referred to a specialist firm who would then go through a risk profiling, etc which would lead them to buying an investment fund, or developing an investment portfolio. A third model might be that the client can then choose to go through an underwriting process and a risk profiling tool which is a “bolt on” to the basic fact find and can lead to a recommendation as to the appropriate insurance product, and/or investment or portfolio, and the execution of the necessary transaction.

This model could be offered by a range of different market participants – banks, insurance companies, investment firms, stand-alone advisers. If they already regulated business, the conduct rules such as suitability will continue to be applicable.

Another benefit we see for retail investors is the increased control over their data – if access to their data is managed digitally, permissions can be given for specific parties and specific uses and then removed when no longer needed. Digital automation of this access control has the potential to make it easier for customers to set and enforce rules around how their data is used, by whom, and for how long.

As an investment product manufacturer, access to certain aspects of customer data could enable us to develop more suitable products for clients, considering their investment requirements and preferences and therefore addressing customer needs more quickly and effectively.

**Q44: What are, in your opinion, the main risks that might originate from the development of open finance? What do you see as the main risks for retail investors? Please explain and please describe how these risks could be mitigated as part of the development of an open finance framework.**

A key risk we foresee is the collation of many different and valuable pieces of data (financial and non-financial) could represent a more attractive target for account hacking/breaches, fraud and data theft (e.g. via phishing), which may result in fraud and harm to retail investors, potentially including financial loss. To mitigate this it will be critical to continue to follow the requirements set by PSD2 and open banking in terms of systems and security controls, requiring an internal audit. This needs to be continuously evolved as the security landscape develops, along with a cybersecurity framework that firms must follow in order to access this data on an ongoing basis.

There is also a risk of customers not being aware or truly understanding how their data is going to be collected, combined with other data sets, and/or analysed. In order to mitigate this there should be stringent requirements in place to require transparency from companies seeking to collect and analyse customer data, set out in such a way that it is clear and not onerous for an individual to understand. In addition, an easy mechanism for customers to see the current situation and edit or withdraw consent (both for the data sharing, and for the results of the analysis on that data) would be important.

Finally, any analysis conducted on these datasets by companies, particularly algorithmically, is at risk of introducing unfair bias. Again we believe that transparency is key here and that companies running such analysis should demonstrate that they have taken the necessary steps in order to avoid this and understand the impact on their customers.

**Q45: Which client investor data could be shared in the context of the development of an open finance framework for investments (e.g., product information; client's balance information; client's investment history/transaction data; client's appropriateness/suitability profile)?**

Key data types we envisage being shared (not necessarily all as a starting point) are:

- Digital ID (KYC / AML)
- Suitability
- Risk profile
- Current holdings (public and private assets) and amounts
- Investment preferences (e.g. ESG preferences)
- Investment products Transaction history – Personal information relevant to their investment goals e.g. age, target retirement

**Q46: What are the main barriers and operational challenges for the development of open finance (e.g., unwillingness of firms to share data for commercial reasons; legal barriers; technical/IT complexity; high costs for intermediaries; other)? Please explain.**

We consider that the legal framework will need to be simplified in order that it is not too onerous for the client, or that it must not be allowed to become onerous. Our experience with Open Banking suggests Standard Application Programming Interfaces (APIs) must sit at the heart of this innovation. Those APIs should meet minimum security and performance standards to be fit for purpose. As an example, we note that some large UK retail banks' open banking technology means extracting client data from them is slow, subject to frequent unannounced change and costly.

**Q47: Do you see the need to foster data portability and the development of a portable digital identity? Please outline the main elements that a digital identity framework should be focusing on.**

Yes, we believe that the development of a portable digital identity would be beneficial as it would remove the need for consumers to go through the same process multiple times with different providers, which aside from inconvenience bring the risk of sharing personal data over potentially vulnerable channels (such as email or carrying physical documents). It could give customers better access to different products and encourage switching by making the onboarding process quicker and easier.

**Q48: Do you consider that regulatory intervention is necessary and useful to help the development of open finance? Please outline any specific amendments to MiFID II or any other relevant legislation.**

We would refer to our answer to Q.46. Our experience of Open Banking suggests regulatory intervention will be necessary. Our current experience highlights that even with a client's permission, obtaining data from some of the larger financial institutions is particularly cumbersome and difficult.

**Q49: What do you consider as the key conditions that would allow open finance to develop in a way that delivers the best outcomes for both financial market participants and customers? Please explain.**

We have referred to effective communication several times throughout this response and believe that this will be key – in terms of requiring firms to demonstrate (both to customers and to the appropriate overseeing body) what data is being collected, for what purpose, and how it will be analysed. Customers should be able to have sight of the conclusions that might be drawn about them by companies as a result of providing their data.

We believe that there is also a need to build in a principle of flexibility to evolve rules and guidance as open finance adoption and usage develops, for individuals and firms. This is a relatively new territory and as the number of available data points increase, and with innovation, there are likely to be several unforeseeable impacts which need to be closely monitored.

To realise the benefits of open finance customers must trust institutions with the security of their data and that sharing their data will result in positive outcomes. If that is not achieved, either through lack of understanding and customer education, or through the firms not deserving that trust, we will lose an opportunity to deliver better, easier, and increased access to suitable investments for consumers.

December 2021