Verband der Auslandsbanken in Deutschland e.V.
Association of Foreign Banks in Germany

Statement
of the Association of Foreign Banks in Germany e.V.

regarding call for evidence on the retail investor journey.

With reference to the call for evidence of 21 May 2025, the VAB comments as follows.

Allow us to begin by briefly introducing ourselves:

The Association of Foreign Banks in Germany e.V. (VAB) represents the interests of around 200 international banks, capital management companies and financial services institutions from over 30 countries that maintain subsidiaries or branches in Germany and provide banking and financial services through them.

General information

For better understanding, we have placed the respective question first, followed by our answer in italics. If there are different possible answers given, we have highlighted the one we have chosen in bold and yellow and underlined it.

Executions

Q4a: Do high fees and costs discourage retail investors from participating in capital markets? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.
- **<u>Yes, fees are a major obstacle to investment</u>**
- Somewhat, but investors consider other factors as well
- No, fees are not a significant concern for most retail investors

<u>Response</u>
In our view, high costs are a key barrier to private investor participation. Long-term investment success depends heavily on cost efficiency - even small differences in fees can have a significant impact on returns. Many of these costs are not caused by market mechanisms, but by structural inefficiencies and overly complex regulatory requirements within institutions.

Certain regulations - however well-intentioned they may be - increase operational costs without improving investor protection. This inhibits innovation and leads to higher costs for end customers. A recent example is the ban on payment for order flow (PFOF), which can inadvertently lead to higher transaction costs for retail investors as commission-free models are eliminated.

To reduce fees, improve access for retail investors and increase attractiveness, regulation should focus on proportionality and reducing complexity for institutions. For this reason, bureaucratic requirements for institutions must be reduced in order to minimize costs for consumers.

Q6: Do retail investors feel they have adequate access to investment advice and relevant information when they encounter difficulties in understanding investment products? If not, what forms of support would be most helpful? Please explain and provide practical examples, or evidence drawn from experience, where available.

Response

The information on investment products is plentiful and available on the internet from independent sources, which is conducive for self-learning and training. In fact, for non-packaged financial instruments it is the only reliable source, e.g. for direct investment in stocks or bonds. There are plenty of independent print or online media that specifically address any information needs for this.

Investment advice on the other hand is a time-consuming endeavour both for clients and institutions, in part due to regulatory documentation duties. It is not a means of educating investors on financial products in general or a range of products, because it is the least effective way to achieve this. Investment advice has its role where clients want to assess specific needs and match them with specific products. However, this is mostly done by both the client and the advisor being totally aware that clients do not want to pay for advice directly, and the advice is financed by inducements from third parties. Banning inducements would directly compromise the ability and willingness of clients to seek advice.

Also the more complex or sophisticated a product is, the less suitable it is to seek or give advice on it. The amount of training and market research that would be necessary to give meaningful advice on short-term or hedging instruments - keeping in mind that errors in market judgement could result in losses - is far too high and cannot possibly sustained as a part of a meaningful business model.

Q8a: To what extent does a lack of financial education or investment knowledge contribute to retail investors' reluctance to invest in capital markets? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

- A major barrier to investment
- A contributing factor, but not the main issue
- **A minor factor compared to other concerns**
- Not a factor at all

Response

The reluctance of retail investors to invest in capital markets at scale is maybe not due to lack of financial education, but a correct understanding of risk. Most people have a clear understanding that the value of financial instruments fluctuate, and sometimes dramatically so. In financial language terms, the Sharpe ratio of a direct investment in the stock market is indisputably bad, which translates in a lot of people's common sense of not getting involved. Only for very long time horizons, the fluctuations level out; but in general, people's lives are full of changes that *make it impossible to judge whether financial decisions for 20 to 25 years can be sustained. Only the most affluent are in a position to be able to afford and plan for long-term exposure to markets.*

Q13: What measures - whether market-driven or policy-driven - could help improve retail investor participation in capital markets? Please explain and provide practical examples, or evidence drawn from experience, where available.

Response

Retail investor participation could be improved through the following targeted measures:

- *Reducing regulatory hurdles, for example by simplifying or limiting suitability tests. Investors should have more freedom to gain experience through their own investment decisions. Practical exposure is often more effective than theoretical education in building long-term confidence.*
- *Deregulating certain financial products could help traditional instruments become more competitive with crypto-assets. The appeal of crypto markets shows that simplified access fosters participation.*
- *Providing incentives for private pension savings - such as tax advantages or contribution matching - would promote long-term engagement with capital markets and improve financial resilience.*

Q15a: MiFID II disclosure requirements aim to provide transparency and support informed investment decisions. In practice, do you believe these disclosures are helping retail investors engage with capital markets, or are there aspects - such as volume, complexity of content, lack of comparability, or format - that may reduce their effectiveness? Please explain your reasoning and provide practical examples, or evidence drawn from experience, where available.

Response

- *There is no evidence that the best execution requirements – including the transparency of best execution policies – have contributed to better execution results. In fact, the amount of resources (i.e. time) to read, understand and assess such best execution frameworks is so high that investors are best advised to ignore them and focus their attention on other things, like intermediary fee structures or picking the best execution venue by themselves.*
- *The PRIIP requirements disqualify retail investors unduly by excluding them from products that were not designed by the financial industry (for a profit) but by real economy companies for refinancing, because the latter lack a KID.*
- *The reduced requirements for financial instruments with a nominal value of 100.000 € or more have led to a situation where retail investors are effectively excluded from the corporate bond market.*

Q16a: Do retail investors find the PRIIPs KID helpful in understanding investment products? Please provide details notably on the elements that are the most helpful and on ways to improve them. If not, are there alternative ways to protect retail investors that could be considered, while not increasing the volume of required disclosures.

Response
Retail investors mostly consider that KIDs are not worth the time for reading. This is not due to their quality or the underlying regulation and cannot be solved by improving them. It is because the most relevant criterion for investment success is the future development in price. And this cannot be assessed or disclosed in a KID, because the future is unknown to us.

Q20: Do retail investors find the quarterly statements helpful in keeping track of their investments? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.
• Yes, it provides clear and relevant information
• Somewhat, but the frequency could be lower
• No, the information is usually readily available to the retail investor online and thus the statements do not have much added value
• Mixed views (please elaborate)

Q21a: Do retail investors find the information on every 10% depreciation of leveraged instruments, or the portfolio value in case of portfolio management, helpful in keeping track of their investments? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.
• Yes, it provides timely and relevant information
• Somewhat, but the trigger for sending the information could be improved (e.g., when the performance of the portfolio is x% worse than the benchmark, if a benchmark has been agreed)
• No, this information may arrive at a moment of temporary market stress, triggering impulse-driven investment decisions at the wrong time.
• Mixed views (please elaborate)

Q34: For firms and trade associations: Have firms observed cases where clients struggle to express their sustainability preferences in a meaningful way? How have these issues been addressed to help retail investors? Please explain and provide practical examples, or evidence drawn from experience, where available.

Response
The process of choosing ESG preferences excludes clients from some investments nearly indefinitely. It takes a lot of determination on the client's side to put in the work required and also restrict themselves in such a way. A lot of clients just want their intermediaries to leave them alone with this additional level of complexity and prefer not to choose any preferences.

Q35a: Do retail investors find suitability reports helpful in understanding why a specific investment was recommended? In your view, do these reports add meaningful value for clients? Please explain and provide practical examples, or evidence drawn from experience, where available.

Response
We do not know about retail investors' views, but firms find it helpful because it considerably reduces the liability and litigation risk for alleged flawed advice.

Q36a: Do you believe the MiFID II appropriateness assessment helps ensure that retail investors understand the risks of the products they invest in? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

- **Yes, it is an effective safeguard.**
- Somewhat, but there is room for improvement.
- No, it is not particularly effective.
- Mixed views (please elaborate).