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Anasf response to ESMA "Call for evidence on the retail investor journey: understanding retail participation in capital markets"

ANASF, the national Association representing financial advisors authorised to offer investment services off the premises of financial intermediaries (consulenti finanziari abilitati all'offerta fuori sede) registered in the official national register pursuant to Article 31 of the Consolidated Law on Finance (Legislative Decree no. 58/1998), would like to express a few considerations regarding the subject of the call for evidence.

Q1: What are the key reasons why many retail savers choose not to invest in capital markets and instead keep their savings in bank deposits? Please explain and provide practical examples, or evidence drawn from experience, where available.

We believe that too much importance is given to real or perceived conflicts of interest. Professional operators, including financial advisors, act with the aim of meeting the needs of their clients. Over the last decade, there has been growth in this category in terms of both knowledge and skills. The assessment of costs cannot be carried out separately from the assessment of the quality of the relationship between the advisor and the client and the service offered. Costs should not be demonized; rather, the competence of professionals should be verified.

Anasf believes it is essential to lift the ban on natural persons providing advice on both independent and non-independent basis (Article 53(3)(c) of the MiFID II Delegated Regulation). This would allow clients to freely choose their preferred mode of advice, whether independent or non-independent, with appropriate organizational requirements and controls by the investment firm to ensure that clients receive and obtain the type of advice appropriate to their profile in the mode they have chosen.

It is considered that the above prohibition does not contribute to investor protection and may, on the contrary, be detrimental to the trust relationship between the investor and the financial advisor, especially in the context of a comprehensive and long-term advisory service. In order to safeguard the objective of clarity and transparency for investors, the prohibition on providing both forms of advice should refer not to the individual financial advisor but to the individual contractual relationship: the same financial advisor could, in general, offer both forms of advice, but could not do so to the same client within the same contractual relationship. In this way, individual clients would be free to decide which service to use, continuing to refer to their trusted advisor with the possibility of reviewing their choice over time based on changes in their personal and financial circumstances and needs.

With regard to the assessment of suitability, we would point out that the current legislation imposes certain restrictions that prevent investors from accessing the widest possible range of financial instruments that could meet their investment needs.

In general, there are a number of cases blocked by strict regulations that do not allow certain investment choices to be made, even upon specific request by the client. There are investors who, based on the suitability test, have the necessary expertise and significant financial resources, but do not have a risk profile suitable for making certain investments that they would otherwise like to make. It could therefore be envisaged that such individuals, assisted by a financial advisor, could in certain circumstances overcome these regulatory limits, for example by allowing part of the available portfolio to be left to the *client's free investment choice, without affecting the total assets except to a minimal extent. In other words, a free portion of the portfolio should be set aside for the client's free choice.*

Another typical case concerns young people who do not have significant financial resources or experience but do have long-term prospects. These are individuals for whom financial instruments with a long-time horizon, which are optimal for their life goals, could typically be useful. This type of investment is effectively blocked by MiFID or IDD.

The assessment of suitability through the investor profiling questionnaire, as currently implemented, does not allow the different objectives of the investor to be identified in a single risk profile. Instead, it would be appropriate to provide for client profiling to be differentiated according to the different investment objectives of the individual investor in relation to their life cycle, with short-, medium- and long-term objectives. Returning to the example of a young person, it is plausible that their short-term investment needs (e.g., buying a house) are very different from their long-term needs (sufficient income for retirement). A single risk profile for each client does not allow for such differentiation.

Therefore, a certain degree of flexibility should be provided for in the investment assessments carried out as part of the advisory service, to avoid excluding individuals who would have better prospects in a long-term investment. Specific controls could be put in place to protect investors and verify that such investments meet the actual needs of clients.

Q2a: To what extent do retail investors find investment products too complex or difficult to understand? 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

The limited financial education of citizens and the resulting lack of knowledge about financial products translates into complexity in the instruments themselves. With the support of a financial advisor, savers are better able to understand the composition of a financial instrument, even if it is complex. Some products are specifically designed by managers for specific objectives and to diversify risk. If they are well understood by clients, they can democratize investment, making it accessible even to those with small amounts of capital.

Another major barrier is the prospectuses, which are too complex and do not make it easy for end users to understand the investments.

Q3: Do past experiences with low or negative returns significantly affect retail investors' willingness to invest again? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• Yes, negative experiences strongly discourage future investment

People who make independent decisions without the support of a financial advisor are subject to various behavioural biases, as clearly identified by Kahneman and behavioural finance theory in general. This is precisely why financial education needs to be improved.

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.

• Somewhat, but investors consider other factors as well

In Italy, over 5 million clients are assisted by financial advisors, and these clients do not consider cost to be a significant factor, as they believe that the quality of the service received is more important. Greater financial literacy is therefore needed to ensure that citizens understand the importance of relying on a financial advisor.

Q5a: Have you identified a lack of trust in investment service providers as a factor influencing retail investors' reluctance to invest? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• A contributing factor, but not the main issue

It depends on the intermediary.

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.

Savers now have two options: seek assistance from a financial advisor or go it alone using digital platforms. If clients seek assistance, they also receive financial education from their financial advisor, who provides them with all the necessary information. If clients decide to go it alone, they risk relying on individuals without specific expertise, such as unqualified fin-influencers, or information provided by AI that may be incorrect or unverified. There is too much information and data from too many sources, which increases the risks.

The qualified response is provided by financial advisors, who – using simple and understandable language – devote much of their time to teaching people how products work and thus reducing difficulties.

Q7: Does investment advice provided to retail clients typically cover all types of investment products (e.g. shares, bonds, investment funds, ETFs), or are certain products rarely advised? If so, please explain which types of instruments are less commonly recommended and why. Please explain and provide practical examples, or evidence drawn from experience, where available.

It depends on the target clientele: the weightings of asset classes vary depending on the individual and their characteristics (personal, family and financial). The advice is obviously very different if it is aimed at a high-net-worth individual rather than a retail investor, who is mainly recommended indirect investments in UCITS, SICAVs or ETFs, thereby reducing risk. Diversification is always necessary. Without financial education, savers perceive instruments such as shares as extremely risky, unlike government bonds, which are perceived as risk-free. Indirect investment products, as part of diversification, also provide access to alternative financial channels through innovative instruments such as alternative investment funds operating in sectors such as private debt, venture capital and private equity, specifically including Eltif, also with a view to promoting their wider use.

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

In Europe, the level of financial literacy is still low. According to a survey by the European Central Bank, only 52% of European adults understand basic concepts such as inflation, compound interest and risk diversification. In some countries, such as Italy and Spain, this percentage falls below 40%. This shortcoming exposes citizens to ill-informed financial choices, increasing the risk of debt and poor planning for the future. In this context, financial advisors play a key role not only in wealth management but also as educators. They help clients better understand the markets, set realistic goals and build a basic financial literacy. Their support is essential to promoting greater economic and decision-making autonomy. Ultimately, financial education means helping people live with greater security and awareness.

Q10: Are there any other significant non-regulatory barriers that discourage retail investors from investing in capital markets? Please explain and provide practical examples, or evidence drawn from experience, where available.

More and more people are working in Europe, but financial products are still not transferable, partly due to a lack of tax harmonisation.

Q11: What role do digital platforms and mobile applications play in shaping the investor journey? Are there digital features or tools that have simplified the investment process or improved investor understanding and decision-making? Conversely, are there aspects that may complicate the experience for some retail investors? Please explain and provide practical examples, or evidence drawn from experience, where available.

Digital tools have pros and cons. Pros include simplified services and speed of use, while cons include the inability to get to know clients in depth.

If the platform is set up correctly, it can help with financial education. It becomes a problem when it provides solutions that attempt to offer easy gains, because this distorts the importance of financial education and leads inexperienced people to overestimate their knowledge and therefore choose unsuitable products.

Q12: How effective do retail investors find the current mechanisms for filing complaints and obtaining redress when issues arise with investment products or services? Do issues with these mechanisms play a role in retail investors' hesitation to invest? If yes, which improvements can be made? Please explain and provide practical examples, or evidence drawn from experience, where available.

They do not play a role. In Italy, it can be difficult for clients to understand who to turn to in order to make a complaint or request compensation, because citizens have access to both a financial dispute arbitrator and a banking dispute arbitrator. In many cases, it is difficult to identify the boundaries of their specific areas of competence.

In any case, complaints have decreased since the 2008 crisis.

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.

Allowing the same advisor to provide both independent and non-independent advice, leaving the choice to clients, would lead to unexpected positive results. As mentioned above, individual clients would be free to decide which service to use, continuing to refer to their trusted advisor with the option of reviewing their choice over time based on changes in their personal and financial circumstances and needs.

Another measure that could prove very useful is a "gentle nudge" from the authorities, for example through advertising on their communication channels explaining why people should take out a supplementary pension fund.

Q14a: Do you believe that young investors are more attracted to speculative and volatile markets (e.g., cryptocurrencies) rather than traditional investments (e.g. investment funds)? If yes, what are the main reasons for this? Please select one or more of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

- **The expectation of high returns**
- **The perception of lower costs (e.g., no management fees, low transaction costs)**
- **The ease of access and fewer entry barriers compared to traditional investments**
- **Influence from social media and online communities**
- **The expectation of high returns through gambling and gaming.**

Gamification, especially among young people, does not allow them to perceive risk correctly, which is distorted, partly through multiplying factors (see Collodi's The Fox and the Cat) and partly due to a lack of financial literacy.

Another determining factor is time. Young people are not aware of the importance of the time needed to carry out actions. Their choices are often immediate, quick, without consideration of risks and effects. The fact that they can have everything immediately has changed their perception of time, which has been reduced to zero by influencers and platforms. Financial education is necessary precisely for self-improvement and the acquisition of awareness and knowledge.

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.

MiFID II was a positive revolution because it allowed for a deeper understanding of clients through the questions asked during the suitability assessment. However, this assessment must be carried out intelligently in order to understand the client's real risk tolerance and repeated over time to record any changes.

It is also necessary to assess whether product knowledge through the KID is the right formula, or whether it is merely a formality to protect issuers from clients.

In our opinion, it would be more useful, for example, to provide a series of levels of information, culminating in the prospectus as the final step. In between, the information should be granular on asset allocation and portfolio structure, and not just details on individual products.

Q15c: For firms: Have firms observed cases where retail investors disengage or hesitate to invest due to the volume, complexity, or presentation of disclosures? If so, what are the main factors contributing to this? Which disclosures and contractual documents do firms consider genuinely necessary, regardless of specific legal requirements under MiFID II or other sectoral legislation? Please explain your reasoning and provide practical examples, or evidence drawn from experience, where available.

Firms adapt to the regulations, and financial advisors are tasked with interpreting them and explaining them to their clients.

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.

As mentioned, information for clients should be graded. If well designed, the KID can still be a useful tool providing the information needed to make an investment decision.

Q17: For firms: Do you measure investor engagement with KIDs and digital disclosures (e.g., click-through rates, reading time, or interactive tools)? Are these available in formats adapted to mobile-first environments? Please explain your reasoning and provide practical examples, or evidence drawn from experience, where available.

Yes, firms are well organised. They often do not provide the KID immediately, but precede it with a summary sheet that gives a general idea of what the product is, and then provide all the details later.

Q18: Do retail investors find the costs and charges disclosures helpful in understanding the costs of investing? Please provide details notably on the disclosures that are the most helpful (e.g., total costs, illustration of cumulative effect of costs on return) 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?

The prospectuses contain phrases designed to comply with regulations, but this only adds complexity. With regard to costs, only those that are actually applied should be indicated (e.g. whether discounts on commissions are applied to clients). Firms often indicate all costs, including potential costs, solely for the sake of compliance. The use of blockchain at the system level will lead to lower administrative costs and, consequently, lower total costs.

Q19: Do firms apply layering of information on costs on charges on digital platforms or in mobile applications (e.g., by showing only the total amount and percentage on the order screen, and all required information in a PDF)? Please provide details, also on the appreciation of retail investors of this application of layering.

Layering can cause confusion because excess/shortfall costs vary. This point also needs to be simplified by providing the total cost as a basis and more detailed information when requested by the client.

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.

• Somewhat, but the frequency could be lower

We consider it appropriate to comply with annual reporting requirements. The report must contain all mandatory information as required by ESMA. Digital media enable investors to access the necessary information at any time.

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.

• No, this information may arrive at a moment of temporary market stress, triggering impulse-driven investment decisions at the wrong time.

Timely information is actually communicated through the quarterly report, which arrives approximately 45 days later. The support of a financial advisor is essential to assist clients in stressful market situations.

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

This information must be contextualised, with technical and behavioural support. It is necessary to support moments of panic with knowledge, providing "emotional" education. If a certain type of asset allocation has been established with the client and, for market reasons, this asset allocation has led to losses, the advisor needs to intervene promptly, explaining why this has happened and the damage the client could potentially incur by liquidating the investment at the wrong time.

Q22: To what extent do questions and measures on customer due diligence in accordance with AML/CFT requirements create barriers that prevent retail clients to start investing? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• Not a factor at all

Q23: Do questions and measures on customer due diligence in accordance with AML/CFT requirements affect the onboarding experience for retail investors? Are there particular steps in the process that cause delays or confusion? Please explain and provide practical examples, or evidence drawn from experience, where available.

Generally no, except in cases where the client has specific characteristics.

Q24: For firms and trade associations: to what extent do national tax regimes create barriers to offering investment services and attracting retail investors on a cross-border basis? Please explain and provide practical examples, or evidence drawn from experience, where available.

The main obstacles encountered by financial advisors are of a fiscal and legislative nature. Regulatory and fiscal fragmentation between Member States continues to complicate cross-border operations. For example, an Italian financial advisor wishing to operate for a Croatian client under the freedom to provide services regime faces bureaucratic and regulatory difficulties that hinder the smooth provision of services. Furthermore, almost all of the products available (estimated at over 90%) are based on Luxembourg legislation, with no significant changes having been made over time to ensure greater uniformity at European level.

In our view, the crux of the matter is tax treatment: harmonised legislation and taxation at European level would be a decisive step towards overcoming the current barriers.

To this end, we propose to take action on PEPPs (Pan-European Personal Pension Products) as a pilot project. Good harmonised legislation could serve as a model and contribute to the spread of high-quality *solutions across Europe, which could be followed by effective harmonisation of the sector, considered a key element for an European solution. It is essential to ensure effective protection for small and medium-sized enterprises, avoiding systemic risks arising from excessive concentration of capital.*

Q25: To what extent do tax-related issues discourage retail investors from investing in investment products issued or manufactured in another Member State? Please explain and provide practical examples, or evidence drawn from experience, where available.

The problem does not arise: the proportion of Italian funds placed in Italy is truly negligible, with 95% of funds being subject to Luxembourg taxation.

Q28: For firms and trade associations: Which steps do firms take to make investment service agreements (contracts) more accessible and understandable to retail investors? Please explain and provide practical examples, or evidence drawn from experience, where available.

Investment information must be distinguished from commercial practices.

Q29: To what extent do retail investors find the process of regularly/periodically providing and updating personal and financial information for suitability assessments clear and workable? Please explain and provide practical examples, or evidence drawn from experience, where available.

Client education matters. Clients must understand the importance of providing accurate and timely information. The role and relationship with the advisor are key in this regard.

There is often a perception that suitability is more about protecting intermediaries than clients. Instead, it should be more closely aligned with the actual needs of citizens, taking into account their different short-, medium- and long-term objectives. Target-based planning and efficient programming are needed, by portfolio rather than by product.

Q31: Are there any steps in the information collection process that could be simplified without compromising investor protection and the objective of this collection which is to propose suitable investments matching client profiles? Please explain and provide practical examples, or evidence drawn from experience, where available.

Simplifying language should not be linked to simplifying the product. If it is decided to remove certain questions about the client's knowledge on the basis of whether or not a product is simple, financial education is no longer provided and the client may be given the incorrect information that a product is risk-free because it is simple.

Q32: How do retail investors perceive the integration of sustainability preferences in suitability assessments? How has it impacted the investment advice/portfolio management services they receive? Please explain and provide practical examples, or evidence drawn from experience, where available.

It has had a significant impact, because it started to be discussed thanks to its inclusion in MiFID II. It is worth noting that, on average, the time horizon for sustainable investments is longer than for other investments, and that if an entrepreneur strives to make their company more sustainable in terms of ESG, this may not be perceived by those who subscribe to an Article 8 or 9 fund. Financial advisors play a key role in explaining these aspects to clients.

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

Clients have no difficulty in indicating their sustainability preferences if sustainability is explained correctly by financial advisors, otherwise it is difficult for them to understand and comprehend. Increasingly, advisors are becoming the central figure in explaining these mechanisms to clients and helping them express their preferences.

However, 9 out of 10 clients question the meaning of sustainability following President Trump's statements on US policy in the coming years.

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.

An operation cannot be performed if the profile is not suitable. This is a well-established filter.

Q35c: For firms and trade associations: What steps have firms taken to ensure suitability reports are concise, clear, and valuable to retail investors? Please explain and provide practical examples, or evidence drawn from experience, where available.

Procedures have been implemented across all intermediaries to introduce filters to protect end clients.

Q37: Do current appropriateness rules and how they are applied by firms effectively address new types of services that combine payments, savings, and investment features? Please explain and provide practical examples, or evidence drawn from experience, where available.

Yes, qualitative elements have been included.

Q38: Are educational tools used during the onboarding process for retail clients? In your experience, are these tools primarily aimed at improving financial literacy, or are they mainly used to justify client access to complex financial products? Please explain and provide practical examples, or evidence drawn from experience, where available.

It is an integral part of professional activity.

Better literacy enables access to complex tools that would otherwise be unknown.

Q39a: Do you believe the current approach to assessing client knowledge and experience via the appropriateness test (i.e., going beyond self-assessment) creates any barrier to retail engagement in financial markets? Please explain and provide practical examples, or evidence drawn from experience, where available.

No, the good practice that has been initiated is essential for the financial education of citizens.

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

experience? If so, please explain which aspects you would amend and why, including any suggestions for improvement.

Yes, financial advisors should be allowed to offer this service. Citizens are often unaware of it, but it could be a great help in expanding the financing capacity of start-ups.

Our Association has repeatedly asked the national authority to open up this possibility to financial advisors, which is currently precluded.

Due to their proximity to investors and the advisory approach that characterises their work, financial advisors are particularly well placed to support savers in understanding and using equity crowdfunding. Financial advisors could be subject to the same rules of conduct as banks and investment firms, which have created a reliable environment for investors in this area.

Q41: Does the current regulatory framework strike the right balance between protecting retail investors and allowing them to take informed investment risks? Please explain and provide practical examples, or evidence drawn from experience, where available.

The situation has improved in recent years, but remains incomplete.

Q42: Are there any aspects of the retail investor experience – whether related to firm practices or the regulatory framework – that are not sufficiently addressed in this consultation or in the current MiFID II rules? If so, please explain where changes in rules, or further supervisory attention or guidance may be helpful

Greater attention should be paid to the potential of alternative FIA products.