

Response targeted consultation on options to enhance the suitability and appropriateness assessments from the EC

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To European Commission
From DUFAS (the Dutch Fund and Asset Management Association)

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Subject **Targeted consultation on options to enhance the suitability and appropriateness assessments of the European Commission**

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DUFAS (the Dutch Fund and Asset Management Association) welcomes the opportunity to respond to the Targeted consultation on options to enhance the suitability and appropriateness assessments from the European Commission, as published by on 21 February 2022.

Shift to a client centric focus

DUFAS welcomes and supports the initiative of the European Commission to shift to a more client-centric approach from the current more product-centric approach in the context of redefining the EU retail investment strategy. We have already advocated such approach in our response to the European Commission consultation on the EU Retail Investment Strategy last year. We do appreciate therefore that the European Commission is exploring this notion further in detail.

Retail investor passport

- *Collection of data for the appropriateness and suitability assessment:* DUFAS sees definitely merit in the collection of data from the client including amongst others financial position, investment objectives and needs, risk appetite, knowledge and experience via a standardized questionnaire for the purposes of establishing a digital and portable “retail investor passport”. Such retail investor passport is particularly useful for client onboarding purposes. It may increase easy access to digital investment services for retail investors, ideally via an app. Past experience show that retail clients do not wish to fully complete various questionnaires firms are using for *inter alia* their advisory or portfolio management intake in an online environment. A digital retail investor passport which can be downloaded or could communicate with online onboarding systems of investment firms could be a solution to this end. Such passport may enable retail client easily to switch between or using multiple brokers/financial intermediaries. It serves the goal of the retail investor strategy, i.e. the CMU, which is increasing retail participation on the capital markets.
- *Personalized Investment Plan:* Such portable retail investor passport may also include features of the so-called Personalized Investment Plan (‘PIP’) as suggested by the European Commission. Components of the PIP could include a description of the investor, investor objectives, investor constraints and possible sustainability preferences. However, one should be aware that particularly for the mass retail investor that invests for example with only small (monthly) amounts with a long investment horizon, too much features of the PIP might overcomplicate such retail passport. So, one should refrain of including too much detail of the PIP into the retail investor passport.

- *Update of information:* In principle, we believe that it is the retail client itself that is responsible for updating its personal information and circumstances. But such updates should be accessible by the investment firm with which the investor maintains an investment account. Obviously, subject to the explicit approval by the client. It is essential however that mechanisms are built into such investor passport that ensures that the personal information is kept up to date by the investor.
- *Preparation of the investor passport/data protection:* In any event, it should be the retail investor that should select the party or intermediary that facilitates the investor digital passport. Ideally this should be an app that communicates with financial intermediaries that offer online investment services. Comparable with the digital passport app used in the Netherlands. This may also be a public independent entity, possibly supported by or initiated by the government. Obviously, machine readability of such retail investor passport is key. Any type of portable client information included in the retail investor passport must ensure sufficient data privacy and data protection. The success of the retail investor passport relies on that.
- *Target market:* As such the establishment of the retail investor passport may particularly be suitable for mass retail and for investing with small (monthly) amounts in a digital environment, but less suitable for e.g. high net worth individuals or professional investors.

Personalized asset allocation strategy (PAAS)

- We do however see less merit to include a personalized asset allocation strategy ('PAAS') in such retail investor passport. We have concerns about the PAAS as proposed, but also do not see how this may lead to more portability and more participation of the retail client to the capital markets.
- The asset allocation strategy which results from the client intake into a risk profile varies per financial firm. PAAS may suggest that investment policies and views of individual firms should be translated into standard risk files. However, asset allocation strategies distinguishes firms from another. Harmonizing risk profiles may hinder competition and reduces choices for the retail client, and is therefore not in the best interest of the retail client. Essentially harmonizing the advisory process which turns into standardized risk profiles may also steer investors into the same type of financial holdings.
- From a practical point of view, the introduction of the PAAS seems to imply that a retail client has a view and can develop its own PAAS. Needless to say this is an issue where the financial advisor or portfolio manager should play its role.

Ideas for further enhancement of suitability and appropriateness assessment

Although, we support the introduction of the retail investor passport, DUFAS sees more merit in addressing and reviewing the current suitability and appropriateness assessment under MiFID in terms of the granularity of the client intake. More in particular, aimed at a specific group of mass retail investors.

- The downside of the current suitability and appropriateness assessment is that the length and granularity of the client intake may form an obstacle for a retail client to onboard any investment service. We have already indicated that past experience shows that retail clients do not wish to fully complete various questionnaires firms are using for *inter alia* their advisory or portfolio management intake in an online environment. As such firms are losing such potential clients already during the onboarding phase. Although we support the concept of the current suitability and appropriateness assessment, we do envisage that for a certain group of retail investors a full suitability and appropriateness assessment may not be necessary.

- DUFAS therefore advises the European Commission to consider to amend the current suitability and appropriateness assessment for a specific group of mass retail investors. This group of retail investors may be defined as the investor that wishes to (i) invest in well spread and diversified investment products, such as investment funds, amongst others ETFs (so-called default funds), (ii) periodically with small amounts, say e.g. EUR 50-100, (iii) in a digital environment, (iv) with a long investment horizon and possibly without a specific investment objective, other than growth, and (v) against efficient costs. For this group a lengthy intake on e.g. the financial situation as part of the suitability assessment is not needed. This may also apply to a certain extent to other elements of the suitability and appropriateness assessment. Instead an assessment limited to three or four basic questions may suffice. Making the onboarding process in that respect practical and short, also means that portability is less an issue and less needed.

Conclusion

- DUFAS appreciates that the European Commission really is willing to redesign the EU retail investment strategy for the purposes of increasing participation of the retail investor to the capital markets.
- In short, we see **merit in the development of a portable retail investor passport** for the purpose of **collection of data of the client** including amongst others financial position, investment objectives and needs, risk appetite, knowledge and experience.
- However, such portability may be less necessary if the onboarding process is limited to a couple of questions. As mentioned, we have identified a **specific group of mass retail investors** for which a simple suitability and appropriateness assessment may be more appropriate than the current regime. Such group can be defined by the (i) (small) amounts of investing, (ii) type of investment products, well spread investment products, investment funds (**default funds**) (iii) long horizon, (iv) type of channel (online only), the (v) absence of a specific investment objective or capital growth in general, and (v) against efficient costs
- Finally, we do have **concerns about the possible introduction of the PAAS**. A portable PAAS seems rather complex and raises a lot of questions. One has to bear in mind that the PAAS is actually an outcome or translation of a suitability and appropriateness assessment by an individual investment firm or financial intermediary. Introducing a PAAS seems to suggest that all firms should follow the same strategic asset allocation. This is not beneficial to the retail investor. Moreover, we fail to see how a PAAS increases participation of retail investors to the capital markets. The ultimate goal of the EU retail investment strategy.

DUFAS: Dutch Fund and Asset Management Association

Since 2003, DUFAS has been committed to a healthy asset management sector in the Netherlands. DUFAS has more than 50 members: from large asset managers who invest Dutch pension and insurance assets to smaller, specialist asset managers. DUFAS increases awareness of the social relevance of investing, helps to develop sector standards and represents the sector in the implementation of new laws and regulations. In addition, DUFAS is committed to a single European market with equal regulations.

More information

Would you like to respond, or should you have any questions? I would be pleased to hear from you. Please feel welcome to e-mail Randy Pattiselanno, DUFAS manager strategy & regulatory affairs, at rp@dufas.nl.