

Luxembourg, 31 May 2022

ALFI response to the European Commission call for evidence on a retail investment package

Introduction

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community. The Association is committed to the development of the Luxembourg fund industry by striving to create new business opportunities, and through the exchange of information and knowledge.

Created in 1988, the Association today represents over 1,500 Luxembourg domiciled investment funds, asset management companies and a wide range of business that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialised IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg domiciled investment funds are distributed in more than 70 countries around the world.

We thank the European Commission for the opportunity to provide a response to the call for evidence on a retail investment package.

Response to the call for evidence

Referring to the ALFI response to the EC consultation strategy for retail investors, we propose the EC to perform targeted modifications of legislation especially in the following areas:

Investor categories

- We welcome the EC's intention to tackle overly restrictive protective measures for investors with sufficient knowledge and experience.
- Retail clients with sufficient experience in financial markets (incl., but not limited to, high-net-worth individuals, certain non-IORP pension funds and family offices) that are constrained by the existing client classification rules should be able to opt-up to professional client status under MiFID.
- Accordingly, we propose to refine existing criteria in MiFID:
 - o Maintain the 10 transactions per quarter, i.e. 40 transactions over the previous year for liquid, but consider a lower threshold of 2 transactions per year in case of illiquid instruments
 - o Reducing the threshold of the client's portfolio from currently EUR 500,000 to EUR 200,000
 - o Sufficient financial knowledge and/or experience should also consider a bachelor master-level diploma (or higher) in economics or finance or has managed a portfolio of

- more than EUR 500,000 over the last five years or working in fields that involve financial expertise for at least one year
 - An additional condition: a transaction of a financial instrument over EUR 100,000 (would be in line with the Prospectus Regulation which considers investments of this size as wholesale investments for certain issuances)
 - Two out of the (now) four conditions would have to be met for a retail client to be allowed to opt-up as professional client
- We are not in favour of a new category of semi-professional clients as
 - it would lead to a large number of changes to the entire MiFID framework and
 - to significant implementation costs for the financial industry

Inducements

- We strongly advocate against a ban of inducements.
- An outright ban will potentially
 - Lead to advice only being available to those who can afford it and are willing to pay for it, leaving big parts of the investorship without access to advice
 - Lead to a reduction in competition among distribution channels and/or a reduction in the number of products offered to the detriment of investors
 - Render the quality of advice unequal compared to when compensation was received for it
 - Result in a serious step backwards in terms of transparency and potential conflicts of interest if this leads financial groups to refocus their product offering on internally produced products
 - Threaten the continuance of the open-architecture environment which is well known in the fund industry and that plays in favour of the end investor
- The existing requirements on suitability tests, client guidance, information and appropriate disclosures on characteristics of the advice should be adequate means to ensure high quality of advice.
- Ref. to ESMA's TA to the EC on the impact of the inducements under MiFID II, we propose the focus to be on improving transparency/explanations on quality enhancement services and fees received.

Financial literacy

- We welcome the EC's intention to tackle insufficient levels of financial literacy.
- Increasing financial literacy could help to
 - Alleviate the lack of equity culture
 - Achieve the policy objectives of the EU Green Deal and to meet the EU's international commitments on climate and sustainability objectives
 - Empower new generations of investors to take full advantage of an increasingly digitalised financial landscape
- We propose in this context:
 - Retail investors should be made aware of the benefits and use of regular investment plans

- While understanding that the main responsibility for financial education lies with MS, the EC has and continues to play a key role in not only highlighting the importance of financial literacy, but in encouraging MS to make financial literacy a top policy priority, e.g. by enabling the disclosure and comparison of national strategies.