BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

BETTER FINANCE responds to

ESMA's Call for Evidence on the retail investor journey: understanding retail participation in capital markets

28 July 2025

Executive Summary

BETTER FINANCE welcomes ESMA's initiative to map the 'retail investor journey'—a timely and necessary step toward a truly investor-centric regulatory approach. This exercise must go beyond mapping behavioural patterns and participation gaps: what is often labelled as investor "reluctance" or "risk aversion" is in fact a symptom of long-standing structural failures—misaligned advice models, inconsistent oversight, and a persistent lack of value for money.

Retail investors have too often been steered toward complex, commission-laden products that underperform or fail to meet expectations, eroding trust and reinforcing disengagement. Our response, grounded in feedback from our national member organisations and independent research, shows how the current investor journey is fragmented, opaque, and ill-suited to empowering individuals. It limits comparability, masks total costs, and fails to align with long-term investor needs.

These issues are not confined to MiFID II's siloed rules, but span across product categories and regulatory regimes—from fragmented and inconsistent disclosures to inadequate post-sale notifications, tax frictions, and a failure to clearly define or enforce product governance and distribution obligations. The existing framework does not enable investors to compare, monitor, or meaningfully understand the products and services they are offered—let alone assess their suitability over time.

Addressing this challenge requires a paradigm shift—toward smarter supervision, fairer market practices, and outcome-based accountability. We call

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for a reinforced duty of care, a level playing field across product types (including ensuring that simple, cost-efficient options are no longer structurally disadvantaged), and reforms to the advice framework to support impartial, bias-free guidance.

While behavioural nudges have a role, they are not enough. Tailored regulatory changes are urgently needed to modernise how information is communicated—ensuring key disclosures are layered, digitally accessible, and designed around user understanding. Rebuilding trust in EU capital markets starts by reimagining the investor journey around the citizen—not around distribution incentives or regulatory silos.

Retail participation remains hindered by structural barriers, including product complexity, lack of trust, cost opacity, and poor comparability. Fragmented servicing and tax-driven disincentives (such as withholding tax burdens and lack of easy account transferability) reinforce home bias and reduce access to efficient, competitive, cross-border investing.

Advice and product understanding remain severely impaired by sales-driven distribution models, where commissions and inducements bias recommendations and reduce trust. A major problem is the lack of clear, harmonised disclosures on the nature of the service — particularly the distinction between tied and independent advice, or between advice and sales. Most retail investors are unaware whether they are interacting with an advisor or a seller, or whether the recommendation they receive is shaped by third-party payments.

This asymmetry is further exacerbated by legalistic communication styles, complex product structures, and fragmented regulatory regimes across MiFID II and IDD. For instance, insurance-based products (IBIPs) are often sold under looser advice and disclosure obligations than MiFID-regulated instruments, despite involving similar risks and long-term commitments.

To address these issues, BETTER FINANCE calls for a levelling of the regulatory playing field across product categories, and for stronger requirements on the labelling, content, and remuneration of advisory services. Greater transparency on conflicts of interest, inducement structures, and service models is essential to restore investor trust and enable meaningful, informed decision-making.

Digital and behavioural design may amplify new biases, rather than mitigate them. Interfaces nudge users toward promoted products or risky actions, with few safeguards or meaningful context (i.e. risks on leverage produt at execution time). Moreover, we find that onboarding processes also fail to present essential disclosures like the PRIIPs KID in a timely or accessible way, especially on mobile platforms.

MiFID II and PRIIPs disclosures remain fragmented and inconsistently applied. Costs, net returns, and risk data are not prioritised or aligned across documents and platforms. Key metrics such as TER, past performance, and liquidity are often buried or missing. Notifications of material product changes (e.g. ETF fee increases) are not mandatory, leaving investors unaware of portfolio-impacting developments.

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Tax complexity remains a major barrier to retail investor participation, particularly across borders. Divergent national rules, opaque tax treatment of foreign products, and burdensome withholding tax (WHT) reclaim procedures create uncertainty and discourage engagement. Retail investors are often disproportionately affected by double taxation risks, refund delays, and high reclaim costs.

Many providers do not offer clear or consistent tax support. Investors are frequently left to navigate complex and inconsistent procedures on their own—particularly regarding WHT, capital gains, or transaction taxes. This undermines transparency and deters cross-border diversification.

Solutions must go beyond fixing WHT mechanics. Simplifying and standardising tax relief procedures, ensuring transparent support from providers, and improving account transferability to avoid liquidation or exit-tax consequences are key steps. A harmonised, product-neutral Investment Savings Account (product-neutral, simple product oriented) could further improve fairness, competition and ease of access across Member States.

Information overload is less about volume and more about poor structure and lack of context. Disclosures are fragmented, poorly layered, and often fail to highlight what matters most—such as real net returns, total costs, and liquidity constraints.

The PRIIPs KID is a key example: forward-looking performance scenarios dominate (akin to marketing), yet the reliable indicators are absent such as past performance, or inflation-adjusted figures. This misleads investors and obstructs meaningful comparisons.

Simplification should be driven by clarity, comparability, and digital layering—not by reducing content. Key indicators must be made accessible and understandable through visual formats and behavioural design.

Warnings for unsuitable products must remain, but they expose a deeper flaw: overly complex products are still marketed despite being flagged. A true investor-centric framework would prioritise access to simple, high-quality products by default, while reserving complex instruments for a new class of qualified retail investors.

Suitability, ESG preferences, and investor reporting require enforcement and redesign. Reports are rarely tailored to investor needs or presented in a durable, visual format. ESG alignment must be credible, monitored, and clearly communicated to prevent greenwashing and enhance engagement.

Complementary frameworks such as occupational pensions and PEPP lack standardised disclosures altogether, undermining transparency and portability. A cross-sectoral mapping of essential pre-contractual information is urgently needed to support comparability and informed decisions.

Keywords :Investor Journey, Disclosure, MiFID, PRIIPS KIS, Retail investment, SIU, Investor Protection, , Digital Investing, Duty of Care, Retail Market access

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About BETTER FINANCE

BETTER FINANCE—the European Federation of Investors and Financial Services Users—is the leading voice of individual investors, savers, and users of financial services across Europe. Free from industry influence, BETTER FINANCE advocates at the EU level for fairer, more transparent, and accountable financial markets. It champions the rights of citizens—as retail investors, pension savers, small shareholders, life insurance policyholders, and borrowers—to ensure that financial policies prioritise people over profit. Through policy engagement, advocacy, and independent research, BETTER FINANCE works to strengthen investor protection, enhance supervision, and promote sustainable finance—to secure fair returns and adequate pensions for all. The Federation brings together independent member organisations from across the EU, as well as the UK, Iceland, Norway, and Lebanon.

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Questions and answers

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.*

BETTER FINANCE has long stressed that both regulatory and non-regulatory barriers continue to impede the shift from a saving habit to an investment culture across the EU. Yet, what is often seen as a preference for low- or no-return bank deposits is not merely behavioural inertia, but a rational response by citizens to structural disincentives, including persistent mistrust in financial distribution favouring product complexity and/or poor returns, and lack of understandability of cost and comparability. Conflicts of interest reduce transparency and are misaligned with the interests of individual, non-professional investors. The issue of 'inducements' from product manufacturers to 'advisors', as well as non-advised (execution-only settings), has entrenched bias. Importantly, the perceived "risk aversion" of retail savers is only one part of the behavioural puzzle; often shaped, and even long fuelled, by how investment products are distributed, promoted or taxed. With this, complex disclosures, opaque fees, and jargon-heavy language make investing appear cognitively exhausting, speculative, and exclusive, rather than a legitimate way to support the real economy and secure personal finances. This is also reinforced in several Member States by cultural preferences for real estate ownership over capital market participation, and by the fact that public or occupational pension systems often reduce the perceived need for individual investing.

In particular, investors' lack of trust surely stems from the current sales-driven distribution model, where incentives favour complex, high-margin products over long-term investor outcomes. The experience of low return will not further incentivise participation. A clear example is the mass promotion of unit-linked or (nominal) capital-guaranteed life insurance products: marketed as low-risk, yet consistently underperforming in real terms. Rebuilding trust to engage in investment requires a clear separation between 'advice' and 'sales', better enforcement of MiFID II's best interest principle, and level playing field initiatives to promote independent advisors and simpler products. In fact, suitability assessment is often poorly understood due to a lack of outcomes. It should better reflect investors' goals and time horizons, rather than relying on default risk labels or procedural box-ticking. Negative experiences and exchange with affected peers also act as deterrents.

A critical barrier to retail investment is the persistent lack of product comparability. Without standardised, cross-product metrics for cost, risk, and return, investors are trapped in a 'black box.' This environment fosters choice overload and paralysis, directly undermining informed decision-making. This challenge is compounded by an increasingly fragmented investor landscape. While digital platforms have successfully engaged younger, self-directed investors with accessible products like ETFs, this trend may also reflect a disillusioned retreat from traditional advice. Simultaneously, the appeal of crypto-assets reveals a new segment of investors with a high appetite for risk, exposing them to novel threats. Conversely, for those with lower financial capacity, capital markets remain perceived as both inaccessible and prohibitively risky. Therefore, policy must address this dual challenge: It is imperative to enforce meaningful product comparability while

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ensuring the market provides proportionate, value-for-money solutions that cater to the diverse needs and risk profiles of all citizens.

The misalignment between policy incentives, information, and distribution environment is highlighted by the stark difference in protection: while bank deposits benefit from strong guarantee schemes, protections for retail investors in capital markets—such as compensation for losses due to fraud or insolvency—are far weaker. This sharp contrast reinforces caution; even those interested in investing are often deterred by the lack of robust safeguards and incentives. In parallel, the lack of accessible and effective redress, both for mis-selling of products and for direct shareholders facing market abuse or misconduct, remains a significant gap in investor protection. When investors are unable to seek timely remedies for losses or wrongdoing, trust declines and engagement falls. Digital risks further exacerbate the problem. False information, unregulated or fraudulent firms (often advertised on social media), "finfluencers", and manipulative recommendation schemes expose retail investors — especially those with lower financial literacy — to heightened harm. The surge in scams, misleading promotions, and impersonation schemes has severely eroded confidence, while enforcement struggles to keep pace with the evolving speed and complexity of online abuse.

Moreover, investing in capital markets should not be costly nor feel like a full-time job to ensure positive outcomes. Yet, tax complexity, high transaction costs, and administrative burdens deter broader participation, especially across borders. These frictions reinforce home bias, discourage savers from pursuing simple, long-term opportunities outside their domestic markets, and ultimately limit competition. As a result of all the above, we conclude that a misaligned environment entrenches many citizens in defaulting to familiar legacy providers and settling for lower-return products, or avoiding investing altogether.

Q2.a – 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**
- A moderate concern, but not the main factor
- A minor issue compared to other factors
- Not a concern at all

Q2.b – For consumer associations: Based on your interaction with retail investors, are there particular types of investment products or product features that retail investors find especially difficult to understand? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Product complexity remains one of the most persistent and systemic barriers to retail investor participation across the EU, while simple products are not sufficiently promoted.

Yet, understandability challenges extend well beyond niche or exotic instruments: even widely available products such as UCITS funds or ETFs can be difficult to navigate, depending on their distribution format (platforms) and how they are first disclosed. Most non-professional savers lack the time and expertise to analyse cost structures, risk profiles, or time-horizon suitability, while product information does not empower them to do so.

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Investing should not feel like a full-time job, yet that is often how it appears to individual investors.

Crucially, this complexity is not inevitable; it reflects a market structure that prioritises legal form/compliance-based disclaimers over clarity, next to distribution incentives bias (see Q1). In particular, MiFID II's requirement to provide information that is "fair, clear and not misleading" remains among the least effectively enforced principles in practice.

BETTER FINANCE's mystery shopping and complaint data confirm that many investors cannot easily identify the purpose, cost, or liquidity of the products they are offered, nor assess their relevance to personal goals. The shortcomings of the current PRIIPs Key Information Document (KID) are emblematic: failing to answer the most basic investor questions: '*What am I buying? At what cost? With what risk of loss? Has this product delivered value in the past?'* It lacks both actual past performance data and a benchmark reference, while cost disclosures are based on estimates that are often misunderstood (reduction-in-yield projections rather than intelligible total expense ratios). The UCITS KIID, now phased out, was clearer on past performance and costs presented. Moreover, key indicators like TER, asset allocation, and risk over different holding periods are inconsistently disclosed or de-emphasised in digital interfaces, leaving investors without a clear sense of how these products compare or whether they suit their investment horizon.

The appearance of a standardised disclosure format is further confusing for a wide range of products, since it fails to present information in a way that enables effective cross-product assessment, masking profound differences in product structure, liquidity, fees, and risk dynamics. Key metrics, such as performance scenarios and Reduction in Yield (RIY), are obscuring like-for-like comparisons, and notably if the product has ever delivered real returns, under what conditions, and at what cost. This issue is particularly acute in the case of structured products and unit-linked life insurance contracts. Moreover, marketing often emphasises nominal guarantees, downplaying the risks associated with holding period, or inflation and thus suitability calibration by fostering financial illusions among retail savers. Likewise, IBIPs present layered costs, long lock-in periods, and embedded insurance elements that the PRIIPs KID does not clearly separate or explain. BETTER FINANCE and its members have documented instances where money market funds were included in insurance-based investment products and marketed as long-term retirement solutions, despite being designed for short-term capital preservation. Such practices reinforce confusion, highlight persistent failures in aligning product characteristics with the investor's time horizon and objective. Again, these mismatches illustrate how current disclosures do not correct, but often reinforce, poor product selection.

Moreover, newer instruments such as fractional shares may improve access and facilitate regular investing, yet they introduce new comprehension challenges. Many platforms use trust-based, co-ownership or even derivative structures, leaving investors unclear about whether they own the underlying asset. These legal distinctions and product features are rarely understood, especially in terms of key rights (such as voting or dividend entitlement), as well as related implications to best execution rules. Despite growing use, there is no harmonised EU framework governing these instruments, while national frameworks appear inconsistent.

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Another issue in comprehension is on risk communication, requiring a better tailored and explanatory approach as it is often confusing investors. Current indicators, such as the PRIIPs synthetic risk indicator (SRI), which relies heavily on volatility under a generic holding period, should be adapted to better reflect personal time-horizon risk. In fact, investors may not understand why more complex products like structured notes with capital conditions may receive lower risk scores than diversified equity funds; despite being far less transparent, harder to exit and with further risk embedded. Risk scales must evolve to reflect the relationship between risk and time, product complexity layers, rather than being oriented on snapshot volatility as current scale/numerical indicators that do not align with expectations of reality. Finally, access to transparent, real-economy investments must be addressed (simple stock, bonds), as summary prospectus are far from digestible for average investor. To this aim, BETTER FINANCE therefore also calls for a mapping that would enable KID-like fact sheets for listed shares and bonds — presenting 'vital' data to help retail investors engage meaningfully with capital markets. Those should be streamlined and layered in a digital environment in a standards fashion. In summary, product complexity contributes to a lack of understanding, particularly when pre-contractual documents fail to provide clear and relevant information. This complexity often seems to be drive by poorly designed or ill-suited key information disclosures. In addition, a lack of layering or hard-to-find information further disincentivises retail investor engagement. This complexity leads to disengagement, mis-selling, suboptimal decision-making and subpar investment outcomes. Reform must begin with intelligible disclosures, foster clearer comparability tools at the centre of the investment journey.

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**
- Somewhat, but other factors (e.g., trust, risk appetite) play a bigger role
- No, past experiences with poor returns are not a major factor in investor decisions

Negative past experiences are common, especially where low or negative real net returns can indeed discourage future investment among retail investors. When outcomes fail to meet expectations, confidence can be eroded. Again, the current context presenting 'future scenarios' in KID exacerbates the issue. This stands true for capital-guaranteed or insurance-based products that underperformed in real terms (and are therefore riskiest for long-term planning) or for structured products with hidden costs and/or exit penalties. Complaint data show that poor outcomes often do not stem from market volatility alone, but from inappropriate or opaque product design. Yet investors are left with such products, whereby they blame the investment channels or the advice.

Negative experience can be further compounded where there is no post-sale feedback loop to explain outcomes or restore trust (duty of care, value for money consideration; a lifecycle approach to financial planning). In fact, negative returns are rarely contextualised or benchmarked, leaving investors unsure whether the result was due to bad advice, product flaws, or market movements. Therefore, we find more meaningful information to be based on past performance reporting, rather than on future scenarios, while unbiased advice should favour suitable and cost-efficient, simple products. BETTER FINANCE has

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shown the overall negative correlation between the cost of UCITS/AIFs funds and their average return. Finally, past performance matters, both for its financial impact as it shapes investor decisions and can better inform in the face of previous market conditions. Providing this information is crucial in ensuring trustworthy information and willingness to re-enter capital markets. In general, clear communication, value-for-money frameworks, and proper post-sale transparency are essential to avoid turning a single poor outcome into a permanent cultural aversion to investing.

Q4.a – 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.*

- ✓ **Yes, fees are a major obstacle to investment**
- **Somewhat, but investors consider other factors as well**
- **No, fees are not a significant concern for most retail investors**

Not only does the level of fees deter retail investors, but also how they are perceived, often with caution, but also confusion, making investors vulnerable to hidden costs. fragmentation, and long-term impact on net returns that drive mistrust and discourage engagement. So-called "free" advice often conceals commissions, leading to the promotion of high-cost, underperforming products. In many cases — particularly with insurance-based investment products (IBIPs) and actively managed funds — total charges exceed 3% annually, silently compounding over time. Over a 20-year horizon, such fees can erode more than 30% of the investor's capital, a figure rarely disclosed at the point of sale. This cost burden is disproportionately borne by first-time and small investors, who face high entry fees and receive little ongoing support. In execution-only environments, lower visible costs may create a false sense of affordability, while nudges toward promoted (commission-based) or speculative products lead to over-trading and regret. Importantly, behavioural research confirms that when investors are faced with complex or layered fee information, they often default to holding cash or short-term savings, further delaying or avoiding investment altogether.

At the system level, the uneven distribution of tax incentives reinforces the cost problem. Products with favourable tax treatment, such as life insurance wrappers, are often also those with the highest embedded costs. Meanwhile, lower-cost, more transparent alternatives (such as ETFs, bonds or listed equities) lack equivalent fiscal support and are seldom recommended under inducement-driven advice models. Surveys and consumer consultations confirm that these dynamics erode trust. A significant portion of retail savers choose not to invest at all, fearing hidden charges or a poor value-for-money trade-off. This contributes to persistent under-participation in capital markets, especially in countries with limited access to independent advice. Yet, solving the cost problem requires more than transparency. It demands regulatory and structural reform to ensure that the most cost-effective products are recommended first, not last, fostering market competition. This can be done by supporting empowering fee-based, independent advice, strengthening duties of care, and enabling retail investors to access affordable, transparent products (highlighting vital characteristics) that genuinely serve their long-term interests.

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Q4.b – For consumer associations: Do retail investors raise specific concerns about investment costs and fees? If yes, which ones? (e.g., are total costs clearly known by individual investors? Are fees perceived as too high? Are they considered unclear or difficult to compare? Do investors feel they get good value compared to the cost?) *Please explain and provide practical examples, or evidence drawn from experience, where available.*

As outlined in our previous response to Q4(a), BETTER FINANCE and its national member organisations regularly confirm that retail investors are not only concerned about the level of fees, but also their opacity, unfairness, and lack of comparability. Many investors struggle to identify the full cost of their investment due to fragmented and technical disclosures. Fees are dispersed across ex-ante illustrations, ex-post reports, performance fees, entry/exit charges, and embedded commissions.

In a recent BETTER FINANCE mystery shopping exercise, most investors could not determine their total costs upfront, and fewer than 10% accessed ex-post summaries, often because they are buried in portals or poorly timed. Consumers also complain that no simple or low-cost products (e.g. ETFs or passive funds) were ever suggested, reinforcing suspicions about biased advice. This is particularly common among those who have done their own research and request a second opinion, either pre-contract or after purchase. They question whether they have been offered the best option, and often express disappointment at underperformance or unclear value for money.

However, retail investors' concerns differ by country, channel, and client type. Younger, digitally active investors are more likely to report issues related to gamified product promotion, platform bias, or the absence of cost comparators. Older or less tech-savvy clients often complain about limited product choice and lack of fee clarity in face-to-face traditional/advisory settings. Again, investors frequently note that costs are difficult to compare across providers or product types.

The PRIIPs and MiFID II disclosures, while mandatory, do not allow for side-by-side product comparisons or cost benchmarking. Even concepts like average holding cost ratios confuse rather than clarify. Without tools that help consumers evaluate total cost in relation to expected outcomes, informed choice is severely limited. Additionally, in non-advised, digital environments, cost-related risks take other forms: platform nudges, behavioural triggers, and leveraged product access expose users to "surprise costs," such as forced liquidations or margin calls, where significant financial losses can arise. These outcomes are not clearly communicated as financial risks or cost consequences, particularly for less experienced or first-time investors.

In short, the concern is not just that costs are high, but that investors are not equipped to assess whether they are justified. These unresolved concerns often lead to frustration, regret, or even full disengagement from investing, especially when outcomes fall short of expectations. BETTER FINANCE urges regulators to go beyond formal disclosures and establish public, digital comparison tools that present total costs, net performance, and value-for-money indicators across products and providers. Combined with advice reforms, such tools are essential to ensuring investors can make informed, confident, and cost-effective decisions.

Q5.a – 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 major factor**
- A contributing factor, but not the main issue
- A minor factor compared to other concerns
- Not a factor at all

We observe that a lack of trust in investment service providers is a persistent and systemic barrier to retail investor participation in EU capital markets. This is reflected in repeated low scores for the financial sector on EU consumer scoreboards, and in the experience of BETTER FINANCE's members and consumer-facing bodies across Member States.

This trust deficit can be explained again, in large part, by a biased advisory system, as outlined in our previous answers. For decades, retail investors have been exposed to toxic or structurally unsuitable products: from unit-linked life insurance contracts and closet index funds to structured products, leveraged derivatives, and high-risk investments promoted as safe or guaranteed. These products were often sold not to meet client needs, but to maximise distributor commissions, under the guise of "advice." These long-standing mis-selling patterns — reinforced by opaque cost structures, limited product comparability, and inadequate redress mechanisms (or lack of access thereto) — have severely eroded investor confidence. Critically, the problem is not confined to IBIPs or past scandals: even today, many retail clients struggle to distinguish between independent advice and kickback-based sales and often cannot rely on enforceable accountability or duty-of-care provisions when faced with detrimental outcomes.

In cross-border contexts, mistrust deepens. Retail investors face uncertainty regarding the applicable protections, supervisory competence, and available complaint channels, which vary significantly across jurisdictions. This fragmentation is not conducive to clarity, nor to consumer empowerment. As a result, many investors shy away from cross-border offers, particularly when national enforcement or language barriers make effective redress appear unlikely.

Mistrust is also prevalent among retail shareholders. Many cannot hold issuers accountable when confronted with market manipulation, corporate governance failings, or obstacles to exercising voting rights. The practical difficulties of attending general meetings, voting across borders, or securing meaningful responses from issuers further alienate individual shareholders. Ultimately, many non-professional investors feel that financial institutions and markets are not embedded in a system designed to protect them, but to protect themselves. This is a powerful psychological barrier — one that fuels disengagement and deters long-term investment.

While disclosures and transparency remain necessary, they are far from sufficient. Rebuilding trust requires structural change: a fundamental shift in service provision, stronger regulatory expectations, credible supervisory follow-up, and accountability frameworks that consistently centre the long-term interests of clients. Clear and enforceable duties of care, reliable redress mechanisms, and a visible commitment to fairness are essential to restoring confidence and enabling greater retail participation in EU capital markets.

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Q5.b – For consumer associations: What specific concerns, if any, do retail investors raise about investment service providers? (e.g., do they feel they receive biased advice? Are there concerns about transparency, trust, or conflicts of interest, or insufficient access to advice tailored to their needs?) *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Again, as outlined previously, retail investors frequently report concerns around biased advice, lack of transparency, and confusion over provider advice or offers on shelf. In fact, many struggle to differentiate between genuine 'advice' and 'sellers' or product placement. When investors entrust selling agents as being impartial, they discover post-sale that better alternatives (low-cost index funds or clean share classes) were never offered. Concerns also extend to contractual lock-ins: products with high exit fees or opaque penalty structures limit flexibility and compound regret when performance disappoints.

Ultimately, BETTER FINANCE calls for benchmarks, decision aids, and more visible enforcement of duty-of-care obligations, not just at the point of sale but throughout the product lifecycle.

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.*

Retail investors often lack adequate access to meaningful, contextualised support when encountering difficulties understanding investment products. While no one expects consumers to be experts, they need to be empowered to self-assess recommended options.

The prevailing complexity of disclosures and distribution practices leaves many without the clarity they need to make such an informed evaluation. In advised settings, the information provided too often serves product placement ('kickbacks') rather than personal financial planning. Moreover, support is typically anchored in compliance-driven suitability checks that may feel rather procedural, box-ticking, or disconnected from actual clients' needs for support. Retail clients need accessible guidance in understanding how risk, cost, liquidity, and time horizon interact in practical terms. However, most may not seek technical detail but help in connecting available options to their investment horizon, financial goals, and preferences. Today, such clarity is largely provided only through independent advice, which remains scarce and inaccessible across much of the EU.

A better lifecycle-based approach to support and evaluation of investment over time is essential. There is a feeling that guidance ends at the point of sale, yet it should continue at key moments: after a few years, during major life events or market shocks, or when a product no longer fits its purpose. Yet such financial planning is supplemented by formal MiFID advice servicing.

BETTER FINANCE supports exploring a more flexible, accountable guidance regime that bridges the gap between advice and portfolio management. In non-advised, execution-only channels, the breadth of choice is rarely matched by meaningful context. Investors are exposed to risk when key product characteristics (or even as leverage) are not highlighted at the moment of trade but instead buried in pre-contractual layers. Timely, on-demand explanations and contextual prompts at key decision points would greatly enhance decision quality and are sought after by average investors.

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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.*

Investment advice across much of the EU remains largely distribution-driven. Advisors typically focus on products they are incentivised to sell, rather than the full range of available instruments. As a result, simpler, lower-cost products like ETFs, shares, and bonds are rarely advised (if ever) despite their suitability for many long-term investors. These instruments are less lucrative for providers and are often excluded from the advisory process, particularly in bank-based or insurance-linked distribution channels ("bancassurance").

Evidence from mystery shopping exercises and consumer complaints confirms this trend. Retail clients who conduct their own research frequently discover simpler or cheaper options — such as index funds or low-cost ETFs — that were never mentioned during advisory interactions. This "discovery gap" undermines trust and reinforces the perception that advice is shaped more by internal sales targets than by client needs. True open architecture and provider-neutral product selection remain the exception, not the norm.

A significant unintended consequence of this failing advisory model is that retail investors are increasingly turning to unregulated online sources for guidance. There, they are exposed to high-risk products and scams promoted via social media and sponsored content, with few, if any, investor protections. Losses incurred in these environments not only erode confidence in digital finance but also damage trust in the regulated system that failed them, weakening overall participation and the credibility of EU capital markets.

Q8.a – 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

Of course, while a lack of financial education is a contributing factor to retail investor reluctance to engage, it is a contributing factor rather than a primary barrier. The deeper, more systemic obstacles lie in the market environment itself, as previously noted: persistent mistrust in financial providers, poor past experiences, and distribution structures riddled with conflicts of interest. As BETTER FINANCE has observed, even financially literate investors are routinely offered unsuitable products or are unable to navigate overly complex disclosures.

Therefore, framing this issue primarily as an "education gap" risks misplacing responsibility by shifting the burden onto consumers instead of addressing flaws in product design, biased advice models, and the lack of cost-effective options. Education cannot

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compensate for a system that is not designed to be fair, clear, and aligned with clients' best interests, especially when it incentivises the sale of overly complex products.

That said, financial education has a valuable role to play. It should start at an early stage but also needs to be delivered meaningfully and in context. In fact, it has proven most effective when it reinforces confidence at relevant moments, which is what prospective investors call for: for instance, through the workplace (pension schemes, employee share-ownership), during digital onboarding, or paired with genuinely independent guidance (point of sale to turn into advisory and knowledge sharing). In these settings, education can help retail investors ask better questions, fuel their own research, and ultimately make more informed decisions. Yet, it cannot be seen as a fix for structural failures in how financial services are offered, disclosed, or regulated. Again, without broader reform, even well-informed investors will remain at risk, and many will choose not to participate at all.

Q8.b – For consumer associations: Based on your interactions with retail investors, what are the most common knowledge gaps that affect their ability to make investment decisions? Are there specific topics where more financial education could improve engagement? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Key knowledge gaps significantly impair retail investors' ability to make informed decisions, leading to ill-suited market practices and distribution gaps. These gaps can be classified into several critical areas.

First, many investors struggle with "monetary illusion", failing to assess real, inflation-adjusted performance, and by extension, the increased pension gap problem that should trigger action. They also do not grasp how cumulative fees erode long-term returns, a problem worsened by fragmented disclosures that make comparison difficult.

Furthermore, investors also fundamentally misunderstand risk, often fearing volatility (short-termism bias) and retreating to "guaranteed" products that lose purchasing power, while simultaneously underestimating the real dangers of illiquidity, overtrading, or holding cash for too long. These misconceptions are compounded by biased advice and disclosures that fail to communicate risk in a relevant and intuitive way.

Furthermore, there is persistent confusion between general recommendations, personalised investment advice, and product sales pitches. Retail investors often assume anyone offering guidance acts in their best interest, unaware that commission-based models incentivise product pushing. This structural ambiguity blurs the lines between advice and distribution, making it difficult for consumers to know if a proposed solution aligns with their needs or simply reflects the seller's commercial incentives.

The average citizen also struggles with the complexity of the product landscape itself. Understanding the fundamental differences between active funds, ETFs, insurance-wrapped products, and structured notes is a major challenge without a common framework for comparison. In many cases, even basic concepts like liquidity, diversification, and time horizon alignment are poorly understood, making it nearly impossible to build a suitable portfolio.

To be effective, financial education must be practical, timely, and contextual. It should focus on net performance, real costs, and basic portfolio construction, and be embedded into environments where decisions are made, such as through real-time prompts on digital

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platforms. However, education alone is not enough. The feeling of information overload is disempowering. Without structural reforms to improve product transparency, comparability, and the neutrality of advice, even well-informed investors can achieve poor outcomes. Ultimately, true empowerment must combine knowledge with robust safeguards, ensuring that investors are not only educated but also protected by enforceable duties of best interest, care, and value for money.

Q9 – For consumer associations: Based on your interactions with retail investors, do psychological or cultural factors – such as fear of losing money, distrust in financial markets, or a preference for familiar products – play a role in retail investors' hesitation to invest? If so, which of these factors seem most important? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Yes, psychological and cultural factors are contributing factors, yet they remain shaped by systemic shortcomings in the market and in distribution practices.

Retail investors often display reluctance to invest in capital markets, and not simply because of innate conservatism, detriments, mistrust, augmented by information overload (partly due to lack of basic financial concepts), are all reinforced, not mitigated, by market structures. Again, while loss aversion may be a core behavioural bias (investors fear losing money more than risking for potential gains), it is shaped by years of underperforming products (insurance-based), mis-selling, and the absence of clear, outcome-oriented guidance. BETTER FINANCE's mystery shopping and complaints data, as well as ECB and IOSCO behavioural research, confirm that these experiences condition strong risk aversion since consumers are offered binary product choices (e.g. low-yield guaranteed products vs. high-risk funds) without long-term planning or appropriate framing, potentially reducing suitability.

Again, distrust in financial service providers is another dominant factor since retail investors cannot adequately discern advice from product sales. Commission-based distribution, paired with insufficient suitability enforcement (outcome-based and value-for-money), and limited redress, further discourages market participation. Status quo bias and familiarity bias reinforce these tendencies. Investors often stick to capital-guaranteed insurance contracts or deposit accounts — not necessarily because they are risk-averse per se, but because these are the only products that are easily understood and presented as "safe." The lack of access to low-cost, transparent products like ETFs through traditional advice channels is exemplary of this issue.

However, alongside risk aversion, we observe a parallel/divide trend of risk-seeking behaviour, particularly among younger or digitally native investors. These individuals are increasingly drawn to speculative assets such as crypto, not solely despite the risk, but because they are seen as outside the traditional financial system — and thus, paradoxically, more trustworthy. The promise of high rewards, combined with narratives of decentralisation and independence, often appears more appealing than a system perceived as costly, opaque, commission-driven, and prone to poor outcomes. This underscores the urgency of creating a transparent, trustworthy, and empowering investment environment by promoting simple products. Not only to engage hesitant savers, but also to protect emerging investors from being funnelled into unregulated or high-risk areas.

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We believe these psychological and cultural barriers interact and reinforce one another. Mistrust increases fear of loss. Fear leads to disengagement or poor choices. Lack of support fuels status quo bias or even risk misperception. Without structural reforms to advice, product architecture, and disclosure (and without effectiveness, usability and protection/layering and standardisation in digital spaces), financial education alone will not suffice. To shift this status-quo dynamic, EU policy must go beyond framing individual biases — that is, citing citizens as culprits for lack of engagement due to risk-aversion — and instead, ensure a fair (unbiased), trusted, and outcome-driven ecosystem is needed to change the status quo. This must translate into levelling the playing field, where simplifying the consumer journey should equate to promoting simpler products and competition, and to foster independent advice, where retail investors can make long-term decisions without being penalised by poor product design, conflicted advice, or confined to behavioural faps.

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.*

The first hurdle would be taxation, which remains one of the most under-recognised yet powerful non-regulatory barriers to retail investor participation. Uncertainty on investment tax regimes and systems is acute, especially in cross-border situations, where fragmented regimes and the absence of clear information (also by some firms) make tax management difficult.

Plus, rather than fostering a single market, the EU's tax diversity creates a patchwork of compliance hurdles that discourage participation. For ordinary investors, understanding tax obligations (from capital gains to dividend withholding or exit charges) can make investing feel like a 'second' job. Moreover, tax incentives often favour bundled, high-cost products over simpler, cost-effective alternatives like index funds or listed shares, creating a biased environment. The lack of streamlined withholding tax relief mechanisms makes cross-border investing burdensome, and even discriminatory (double taxation within the EU), deterring even well-informed investors. Therefore, investor empowerment must include fiscal transparency, alignment of tax incentives with net outcomes, and simple access to essential cross-border reliefs.

Beyond taxation, a new layer of complexity is emerging from the evolving architecture of financial services, especially in digital and hybrid environments. While access to investment opportunities has broadened, the way these services are delivered has become harder to navigate. Payment service providers now offer investment-like products, while neobanks promote "saving pots" linked to money market funds, and robo-advisory and discretionary services are layered into platforms once limited to execution-only services. This blurs the lines between sales, advice, and discretionary mandates — especially for less digitally fluent investors — and often masks the nature of the product or the level of protection it entails.

Critically, investors are now asked to evaluate not only product risk, but also the structure and logic of the service offering itself. Many struggle to distinguish between advised and non-advised settings, to understand whether capital protection is implied or non-existent, or to identify who holds responsibility for outcomes. Existing frameworks — including MiFID II's target market regime — do not fully reflect the complexity introduced by service

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hybridisation and embedded intermediation. In this new context, the investor protection perimeter is often unclear.

At the same time, market fragmentation and segmentation persist beneath the surface of accessibility. Retail investors may technically access a broad range of products, but many report a perceived lack of affordable, transparent, or comprehensible options. Structural divisions between retail and professional clients limit access to cost-efficient instruments or well-diversified funds, with no clear rationale communicated to end-users. The absence of cross-product comparability — especially regarding real net outcomes — leaves investors disoriented, often relying on brand recognition or perceived safety rather than informed judgment.

Finally, the proliferation of scams and fraudulent offers on digital platforms introduces not just financial harm but reputational risk. Even those who do not fall victim to misleading ads or fake investment schemes may lose confidence in the legitimacy of capital markets altogether. Without strong enforcement and visible action against fraud, retail participation will remain subdued — not because of risk aversion per se, but because of systemic distrust in the ecosystem that supports investing.

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.*

Indeed, digital platforms — and in particular the rise of new digital brokers — have significantly widened access to capital markets, especially for younger, digitally native retail investors. Intuitive interfaces, streamlined onboarding, and low-cost structures have lowered traditional entry barriers and improved market inclusion. Mobile applications provide around-the-clock portfolio visibility, instant order confirmations, and easier account funding, while sometimes integrating educational resources, goal-tracking dashboards, or even demo accounts to test strategies. New micro-investing tools have also helped some users start investing with small amounts. While many of these services offer flexibility, other ones such as extending trading into off-market hours can also expose investors to higher spreads, lower liquidity, and increased volatility, as well as encouraging over-trading and impulsive behaviour. In this respect, digitalisation has had a broadly positive effect on engagement and accessibility, but the format and timing of access can itself introduce novel risks, including investor awareness gaps.

In fact, ease of access has also exacerbated new and increasingly significant behavioural risks, since many platforms rely on engagement-driven business models designed to maximise frequent user interaction. Gamification techniques, push notifications — especially during periods of high volatility — and “featured” or “trending” product lists (often highlighting meme stocks or popularity rankings) can entrench users into selective exposure rather than diversification. Moreover, algorithms that over-personalise suggestions may create “echo chambers” that limit exposure to more suitable options, where self-execution, recommendation, and advisory settings are blurred. These design choices can nudge retail users toward excessive trading (including day trading), speculative strategies, or divert them into non-core speculative activities, undermining long-term wealth-building goals. Moreover, the absence of tailored support tools or clear, on-demand or at-execution-time explanations (or warnings) — particularly for complex or leveraged products — increases the risk of misinformed decisions. For such instruments, clear and mandatory pre-trade warnings (e.g. on margin calls) should be required at execution time, as many retail investors may not fully grasp the risks.

Moreover, other emerging digital "complex services" can increasingly blur the lines between investing, liquidity management, and payments. Bundling multiple functionalities — payments, currency exchange, savings and investment accounts — is not problematic in itself and can encourage saving habits. However, these hybrid models often replicate what traditional institutions offered while bypassing established safeguards, creating new forms of service complexity and potential investor confusion or illusion. A notable example is payment-linked micro-investing and spending. Automated investing linked to card payments under dollar-cost averaging (DCA) plans can act as a positive nudge, but raises execution-quality concerns, including best execution. Alongside those, new reward-based features, such as "cashback-linked investing", have also migrated from crypto into fiat finance. Marketed as incentives to invest or save, these schemes may involve significant mark-ups, operate under looser best execution rules, and — in some designs (e.g. "the more you spend, the more you invest") — act as misleading incentives, especially when tied to volatile or illiquid assets, obscuring the "real cost" of investing. While they may function as positive nudges, they can also blur the line between promotion, speculation, and investment. Many such offers fall outside MiFID II protections, with weak transparency and suitability safeguards. Some originated as mechanisms to simulate crypto-spending in fiat currency, yet often involve costly conversions without pre-trade disclosures. Increasingly, such features are being applied to traditional products, expanding these risks into mainstream finance. Conversely, real-time or deferred liquidation of investment assets to fund spending may trigger unplanned sales without transparency on price, timing, or spreads, eroding purchasing power or causing avoidable losses. Such liquidations can also generate unforeseen tax liabilities, such as capital gains or loss of annual allowances, which investors may not anticipate at the point of sale. In a digitalised environment, where transaction flows are automated and tax treatment varies across jurisdictions, the absence of clear, real-time tax information can create an additional layer of complexity and fuel the illusion that such spending is cost-free. This two-way mechanism, moving between spending and investing, therefore presents material risks around transparency, mark-ups, suitability, and tax impacts. Although embedded in seemingly simple interfaces, such services should be treated as "complex" for regulatory purposes, particularly when they bypass appropriateness or suitability obligations (with no appropriateness test triggered under an execution-only regime). In this respect, the regulatory approach warrants attention: the convergence of investment and payment functionalities is advancing faster than the regulatory perimeter, since MiFID II does not fully address such hybrid models, and PSD2-3/PSR does not pertain to investments. Bridging these gaps is essential to ensure consistent conduct standards and accountability when services straddle multiple regimes.

Beyond product design and distribution, complaints handling and redress remain persistent weaknesses in the digital "investor journey". The recent removal of online dispute resolution, combined with fragmented and underused ADR frameworks, leaves retail clients with burdensome or confusing escalation processes. Many digital-first platforms offer unclear complaint procedures, limited access to timely, human support,

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and insufficient transparency on complaint handling — particularly when execution errors or performance disputes occur. In some cases, contact points are hidden or replaced by automated chatbots, deterring formal complaints.

While digitalisation has expanded access to both simple and complex products, it has also created new appropriateness challenges. Retail clients often cannot distinguish between advice, execution-only services, and discretionary mandates, leaving them unaware of applicable protections. Concerns extend to onboarding and information layering, with investors specifically noting the absence of real-time warnings — or clear information — on leveraged products at execution time. Digital layering can also defer or bury key risk disclosures behind secondary menus, meaning they are not seen until after an investment decision is effectively made. Older and less digitally fluent users face exclusion where offline alternatives are unavailable or offered on unequal terms, and some face dependency risks where offline channels are intentionally less functional. Others encounter technical or connectivity barriers that limit full platform functionality.

To conclude, digital investment tools must operate under a clear duty of care and binding best-interest obligation, tailored to the realities of online engagement. These principles are essential to prevent harm, address behavioural risks, and ensure fairness in increasingly complex and hybridised service models. This requires curbing manipulative nudging, removing embedded conflicts of interest, and mandating transparent, layered disclosures — particularly for complex, bundled, or hybrid services where risks, costs, and tax impacts are often obscured. Regulation should also keep pace with the convergence of payment and investment functions, clarifying MiFID II's scope to capture hybrid models and extending PSD2/PSR safeguards when payment services embed investment exposure, or where neither regime currently applies. Therefore, supervision should move towards outcome-based approaches, assessing whether platforms deliver on their best-interest duty throughout the full client lifecycle. Embedding measurable accountability, as in the UK (cf. FCA's Consumer Duty), would ensure digital innovation strengthens inclusion, transparency, investor protection, and does not obscure tax implications.

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.*

For many retail investors, current complaint and redress mechanisms are often unclear or seen as ineffective, opaque, and even fragmented (particularly in cross-border or digital-first settings). These factors contribute to a lack of confidence that deters market participation. In fact, most investors are unsure where or how to file a complaint. Even when they do, they often face slow, unclear processes (and potential poor feedback and disengaged providers).

The removal of the EU's ODR platform is a primary example, highlighting its lack of visibility and further limiting easy access. Alternative Dispute Resolution (ADR) remains inconsistently applied across Member States and is often voluntary or non-binding, leaving retail clients with few options for real, quick remedies. Many reports show that clients are unsure which authority to approach, what protections apply, or how to escalate complaints. Where problems affect multiple clients (for example, through mis-selling or flawed product design), there is usually no clear path for collective redress, and no provisions at

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all for direct shareholder redress / representative action (with the exception of the Netherlands).

BETTER FINANCE has long warned that these gaps contribute to a perception of impunity and reinforce the power imbalance between firms and consumers, and remove issuers' liability. There is no clear view on the frequency of retail investors abandoning complaints due to complexity or lack of support, especially when individual losses are small and perceived as not worth the effort. Reforms are urgently needed. All investment providers, including digital and cross-border actors, should be obliged to participate in ADR schemes. A single EU complaints portal should be reevaluated, where escalation procedures are clarified, and redress outcomes made public. Critically, collective redress must be strengthened to address systemic harm (product design, misleading practices, or firm-wide misconduct), while shareholders need representative cross-border actions. A sound redress framework should also entail opt-out class actions to ensure fairness under simplified procedures, and broader standing for consumer organisations to act on behalf of shareholders. Without these changes, redress will remain a weak link in the investor journey, or when it fails.

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.*

To improve retail investor participation, a mix of structural, supervisory, and consumer empowerment measures is needed. Many of these issues (*fee opacity, product complexity or bias, insufficient redress, and trust deficits)* have been addressed throughout this consultation and remain key deterrents. However, we reiterate several key points here that warrant further emphasis.

First, neutral, independent and non-commercial sources of information (notably from consumer organisations) must be supported and better integrated into investor 'journeys' or awareness campaigns. A major improvement would be the establishment of an EU-wide financial product comparison tool anchored in standardised metrics (including product cost-performance ratio) to truly enable clearer choices. This would be especially helpful by making outcome-based benchmarks (net returns) more visible to investors. Moreover, for platforms, clear product ("vital information") layering and features should be standardised next, while also introducing enhanced execution summary information for specific products (e.g. when a margin call can be triggered), while warnings should be better contextualised (drop-down menus/links forwarding to impartial information to increase knowledge). Therefore, contextualised, timely, and standardised warnings (especially in execution-only environments) should be required at the point of engagement, not just in legal disclosures. Legal disclosures, however, should better ensure comparability, simplify the above suggestions, and enable digital layering.

The industry should commit to higher training standards for all advisors. Under commission-based models, a stronger baseline of competence and a reinforced duty of care (including a clear best interest obligation and value-for-money assessment) must apply to all who serve retail clients. Transparency should also be enhanced through clear distribution labels, specifically distinguishing (tied) agents as (non-independent) product sellers from independent advisors. This would help level the playing field and avoid deterring fee-based advice, which can potentially empower investors by supporting unbiased financial planning objectives.

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In digital contexts, specific requirements must address manipulative nudging, product bias, and complex service design. These risks should be properly mapped and mitigated through enforceable guidance. EU supervisory frameworks should evolve from a narrow product governance approach to outcome-based supervision focused on real-world effects, with the aim of reducing consumer harm and enhancing net returns. For greater investor clarity, standardised product labelling such as the promotion of the Pan-European Personal Pension (PEPP) can support engagement and contribute to pillar 2 and 3. Similarly, a simplified European Savings and Investment Account (with clear criteria, portability, low fees, and embedded shareholder rights) would bring much-needed structure and transparency and new competition to the cross-border retail investment landscape and directly foster a genuine 'Savings and Investment Union'. Its effectiveness, however, hinges on aligned and simplified tax treatment across Member States and on avoiding structural biases (such as those favouring insurance-based products, pension wrappers, or other bundled long-term products over simpler, more cost-effective securities investments). Successful models such as Sweden's ISK, the UK's ISA, or Lithuania's investment account show how streamlined taxation can promote direct securities investing and cost-efficiency options. Another crucial element is the development and uptake of a broad EU-wide total market index fund to promote diversification and channel retail capital into EU-listed SMEs, which otherwise remain difficult to access for individual investors.

Digital content creators (such as "finfluencers") must fall under enforceable obligations when promoting specific financial products (especially where there is a commercial tie). This includes enforcing transparency rules and enabling accountability mechanisms both for platforms and individuals. Online claims about financial wellness or "investment health" should trigger appropriate regulatory scrutiny and warnings on social platforms, and such ads should be subject to clear regulation.

Tax clarity and neutrality must also be addressed. Fragmented, opaque tax treatments (especially in cross-border settings) dissuade retail participation and create confusion. EU-wide simplification and standardised guidance would help reduce perceived legal and financial risks. Finally, investor engagement and the "investor journey" must be framed as a lifelong journey, not a one-off interaction and therefore be structured as touchpoints and part of a proper "duty of care" metrics, proportional to investment services provided.

Q14.a – 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**
- ✓ **A preference for decentralised, non-intermediated investments**
- ✓ **Influence from social media and online communities**
- ✓ **Distrust in traditional financial institutions and advisers**

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- **Other (please specify)**

We indeed observe a rather polarised pattern among younger investors, either marked by withdrawal from traditional finance or a shift towards riskier, decentralised alternatives. However, this should not be interpreted as pure passivity or indifference: many are actively searching for better-suited options but perceive conventional investment channels as opaque, costly, or misaligned with their return expectations (or even values, due to the lack of a positive societal vision of traditional finance).

Crypto-assets seem to emerge not only due to ease of access but also as built on narratives of autonomy and transparency (qualities often seen as absent in traditional finance). Moreover, a new gamble-like dimension is also present: for some, crypto investing resembles high-stakes speculation more than long-term wealth building. These features, while often illusory or risky, resonate in an environment where product comparability remains poor, independent guidance is scarce, and past experiences (underperformance or fee opacity) continue to deter engagement in traditional funds. This behavioural shift is further amplified by digital ecosystems. Social media platforms, finfluencers, and online communities frequently act as substitutes for institutional information channels, shaping new investor mindsets and decision-making. Yet they also expose young investors to hype, misinformation, and behavioural traps. Ultimately, the attraction to speculative assets reflects both a perceived opportunity and a lack of credible, return-oriented, and trustworthy alternatives within the regulated space.

Yet this also presents a chance: many of these investors are self-directed, making it possible to reorient their interest toward simpler, transparent products — such as direct investments in shares, bonds, or ETFs. For this to succeed, access must be user-friendly and disclosures clear, while the investment narrative must be reframed around real economic value. Investing in SMEs, for instance, can be as potentially rewarding as speculative assets — but with tangible, measurable outcomes and a stronger societal purpose. Strengthening this connection, particularly through cost-effective, broad-based EU index funds, could help demonstrate how regulated investments contribute meaningfully to both personal and collective goals.

Q14.b – For consumer associations: Based on your interactions with young investors, what factors most strongly influence their decision to invest in speculative and volatile assets like cryptocurrencies over traditional investment products? Are there particular expectations, misconceptions, or marketing tactics that play a key role? Do any of the following sources play a role in shaping young investors' decisions? *Please select one or more of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

- **Specialised journals and periodicals**

✓ **Finfluencers**

✓ **AI-generated recommendations**

✓ **Educational content from national competent authorities (e.g. podcasts, videos, social media)**

✓ **Other (please specify)**

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See our previous elaboration in Q14.a., as young investors' interest in speculative assets often stems from perceived gaps in traditional finance, in turn shaping where they source information.

Social media platforms, finfluencers, and online communities play a dominant role. Many young investors trust these channels more than formal advice, particularly when traditional providers are seen as biased or unhelpful. While some finfluencers provide educational value, many operate without transparency or accountability. Specialised podcasts, YouTube channels, and forums further normalise speculative investing by presenting it as dynamic and rewarding. Next to this, riskier and dodgy algorithm-driven content (including claims of AI-generated signals), cover both crypto-assets and traditional products, which mandates careful consideration.

Ultimately, as stated below, all alternative channels fill a void in traditional market clarity and perceived opacity and bias. We note, however, that under MiCAR, information provided by national authorities on crypto-assets can be a valuable source of information for mitigating certain risks. Nonetheless, unregulated entities and fake 'crypto' or 'AI' services remain a concern, as they exploit these trends to operate and potentially scam investors.

Q15.a – 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.*

While MiFID II disclosures were intended to empower retail investors, they often do the opposite in practice. BETTER FINANCE has consistently underlined that the complexity, fragmentation, volume, and presentation format of cost and product disclosures dilute their effectiveness; all the more in digital-first environments without a clear hierarchy and layering.

Notably, ex-ante and ex-post disclosures can overwhelm retail users through legalistic language, a lack of clear hierarchy, and poor contextualisation. In practice, our reports show that retail investors often cannot distinguish between ongoing and one-off costs, nor understand how these accumulate over their own investment horizon. The 5-year cumulative cost projection example (expressed as a percentage) can mislead when the actual time horizon differs, and complicate comparability. Crucially, the absence of standardised, net outcome indicators (e.g. after inflation and fees) impairs meaningful product comparisons. Again, for investors, the PRIIPs KID remains one of the most criticised tools. We have long reported that performance scenarios are unreliable and promotional in nature (pseudo-science), excluding useful historical comparisons (e.g. past performance against benchmarks), and present net cost and return metrics in a way that is not clearly understandable.

Ex-post disclosures, while theoretically more digestible, are rarely presented in a user-friendly or retrievable format. In digital-first environments, where investors interact via apps or platforms, we regret that documents are often static PDFs with no visual layering. Moreover, we note a lack of clarity in legal alerts for significant changes (e.g., in fund charges/TER) and that proper integration of such information into ongoing investor interfaces is vital. This limits usability, comprehension, and awareness, including digitally.

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Disclosure frameworks should be redesigned to empower, and not obscure. Information must be layered, visually enhanced, and tested using focus groups and behavioural insights. BETTER FINANCE would support a comprehensive overhaul to simplify the KID and certain MiFID cost reports, provided it's based on demonstrated investor understanding, not just formal compliance. No substantial format change should be introduced without consumer testing.

The key balance lies in ensuring simplification does not come at the cost of omitting key data. We caution against superficial "simplification" that further weakens transparency. Instead, we call for reintroducing the clearer features of the former UCITS KIID (e.g. past performance against benchmarks) and scrapping misleading forward-looking scenarios in the PRIIPs KID. These should no longer be treated as 'objective' disclosures but recognised as marketing content.

Q15.b – For consumer associations: Have retail investors reported difficulties in using MiFID II disclosures to support their investment decisions? Are there specific areas (e.g., costs, risks, product features) where excessive or unclear information makes investing more difficult? Have you observed issues with the presentation or format, or comparability, of disclosure materials that may affect how well investors engage with the information? Which disclosures (which specific information) do you consider genuinely necessary, regardless of specific legal requirements under MiFID II or other sectoral legislation? Would alternative formats (such as visual aids or summaries) improve comprehension and decision-making? *Please explain your reasoning and provide practical examples, or evidence drawn from experience, where available.*

As stated previously, there are persistent difficulties among retail investors in navigating MiFID II disclosures (particularly on annual returns, cost transparency, comparability, and digital usability). Cost breakdowns are often fragmented, mixing fund costs, distribution charges, and transaction fees without a clear hierarchy. At the same time, investors struggle to distinguish between one-off and ongoing costs, or to assess their cumulative impact across holding periods. A 2% annual charge, for example, may appear modest until shown over a 10-year horizon. Therefore, a perspective is still lacking in most disclosures.

Ex-post cost statements, while crucial in theory, are rarely intuitive or prominently available. In digital-first environments, they are often buried in static PDFs, with little layering or context. Visualisation tools such as timelines for cumulative costs, pie charts, or colour-coded risk indicators are underused. Investors also report that risk warnings are overly general, failing to reflect product-specific characteristics or investor behaviour/time-horizon, while liquidity should be a stronger determinant highlighted. Comparability is another barrier: key data such as the TER of ETFs is not always shown clearly, and differences between similar products remain difficult to assess. Across the board, BETTER FINANCE finds that investors are rarely given a simple, net cost figure in euros and percentages — covering 1, 5, or 10 years — that would allow for meaningful comparison. Likewise, changes in a product's TER or risk profile are rarely flagged, leaving investors unaware of key developments affecting returns. A further concern is that investors are often unclear about the service model they are engaging with. They cannot always tell whether advice is independent or tied. Investment offers should thus include a clear, up-front label of the distribution model, especially in digital channels. Finally, substantial changes to disclosure formats should only be made after thorough behavioural testing and focus group feedback. BETTER FINANCE strongly advocates restoring

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effective features from the former UCITS KID — including past performance versus benchmark — and urges regulators to treat forward-looking PRIIPs performance scenarios as marketing tools, not reliable predictors of outcomes. In short, disclosures must be restructured to prioritise clarity, layering, comparability, and accessibility. They must not only inform but genuinely support sound investor decision-making.

Q16.a – 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 earlier in the consultation, the current PRIIPs Key Information Document (KID) is not helpful and rather represents a step back from the former KIID (UCITS). As consistently reported by BETTER FINANCE and its member organisations, the KID in its present form fails to meet its core purpose: enabling investors to make informed and meaningful comparisons across products. The design and content of the KID is shaped by ill-suited compliance imperatives, rather than by the real needs and abilities of retail clients, while proving complex for firms to produce.

First, the exclusion of actual past performance data is a fundamental flaw. This omission prevents investors from evaluating how a product has behaved historically, but also whether it has kept up with inflation, or how it compares to a relevant benchmark. Therefore, the KID deprives retail investors of one of the most intuitive and educational metrics: real-world evidence of product outcomes. Similarly, the document fails to provide clear information on the investment objective (generic) or asset allocation (limited, clear information), making it hard for users to situate a product within the broader market or their own financial strategy.

Second, cost disclosure is often abstract at best, if not misleading. The KID uses theoretical concepts such as the Reduction in Yield (RIY), which are disconnected from how real charges affect actual net returns. The earlier UCITS KIID framework presented a much clearer and more straightforward cost figure: the Total Expense Ratio (TER), expressed as an annualised percentage. Today, investors must navigate through layers of assumptions and scenarios without seeing a basic, factual figure like total annual cost or how fees accumulate over time. Even more problematic are the future performance scenarios. These are presented with an unwarranted appearance of precision, often underpinned by volatility assumptions that do not reflect investor expectations or product realities. BETTER FINANCE has long argued that these scenarios mislead more than they inform. Rather than helping investors assess likely outcomes, they risk creating undue optimism and false confidence.

Going forward, a simplified and more reliable KID should reintroduce features from the UCITS KIID: including 10-year actual past performance charts (or since inception), clearly benchmarked against a relevant index. Moreover, risk indicators should be adjusted to reflect realistic risk and time horizon relations (hierarchy matrix table). Core figures like TER and net return after fees (and ideally after inflation) must be restored and prominently presented. Sustainability claims, if included, should be short, verifiable, and standardised.

BETTER FINANCE strongly supports the use of behavioural testing and investor focus groups to validate the effectiveness of any necessary future KID complete redesign. Again, simplification should not mean simply reducing the amount of information, but rather

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improving clarity and usability. No substantial format changes should be made without demonstrable proof that retail users understand the result better. The KID must not only be simpler, but also more honest, decision-useful, and tailored to the real-life experience of individual investors

Q16.b – For consumer organisations: Based on your experience, are PRIIPs KIDs made easily accessible to retail investors – for example, are they clearly available on firms' websites or other relevant channels? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Despite being a mandatory pre-contractual disclosure under the PRIIPs Regulation, the Key Information Document (KID) is rarely integrated into the investor experience in a visible, timely, or effective manner. BETTER FINANCE members consistently report that retail investors struggle to locate, access, or understand the KID, and this can be excacerbated in digital-first settings such (as mobile apps or online investment platforms). Too often, the KID is relegated to obscure/sub-menus, document repositories, or downloadable PDFs, and can be bypassed entirely during the decision-making process.

As long as the KID flaws and static design, it is both incompatible with digital layering or behavioural design and sound decision-making. In fact, platforms retain broad discretion over which key product characteristics (such as the Total Expense Ratio (TER), investment objectives, liquidity constraints, or guarantees) are featured natively or prominently into the 'investor journey', and which could remain hidden (or relegated) in often less accessible PDF attachments constituting the KID. Moreover, platform may mimick KID flaws, and therefore not rarely provide clear past performance data, benchmark comparisons, or net returns omitted from their interface, despite their relevance for investor understanding. This undermines comparability, transparency, and the purpose of pre-contractual disclosure in the digital environment.

To address this gap, the PRIIPs KID must evolve into a digital-native, layered disclosure tool that is automatically surfaced at relevant decision points. Key figures—such as TER, cumulative costs, past performance versus benchmark, inflation-adjusted returns, and liquidity or exit conditions—should be presented up front in plain, visual formats (e.g. icons, interractive summaries, tooltips), as integrated in a sound product overseight, governance and delivery process.

Crucially, notifications of material product changes should be made mandatory and prominently displayed on investment platforms—particularly in self-directed environments where investors rely on digital interfaces for monitoring and decision-making. As it stands, no binding rule ensures that clients are proactively informed when key product features change. The "significant change" provision under the PRIIPs Regulation is vague, lacks implementation guidance, and is poorly enforced in practice.

As a result, neither product manufacturers nor financial intermediaries—such as online brokers, robo-advisors, or digital wealth managers—are systematically required to notify clients when, for example, an ETF increases its Total Expense Ratio (TER) or a life insurance-based product alters its investment strategy, underlying assets, or guarantees. Even within advised relationships, such updates are not always relayed unless they trigger obligations under MiFID II's ongoing suitability framework or under the IDD's post-sale provisions (which only apply to contracts with advice or periodic reviews).

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This gap presents serious risks in digital portfolios, where automatic rebalancing, product substitutions, or changes in fee structures may occur without the investor's awareness or explicit consent—potentially distorting the risk-return profile or increasing costs. While MiFID II and the IDD include some obligations in the context of advised or managed services, there is currently no equivalent requirement for self-directed platforms, despite their growing dominance in retail investing and their role as the primary information gatekeepers.

To address this, the principle of material change notification should be extended to include digital and execution-only settings—with clear, enforceable obligations on distributors to provide timely and visible alerts when a product's key characteristics change. This includes specifying: who (manufacturer, distributor firms, or both) must notify the client; what explicitely qualifies as a material change (e.g. [TER] cost increase, strategy shift, product characteristic); how and when the notification must be delivered (e.g. app notification, email, account alert), revising the 'durable medium' request to include a timely information delivery. Without such a framework, investors risk being left unable to exercise meaningful oversight of their portfolios, undermining the principles of informed consent, trust, and transparency that should always underpin EU investor protection rules. Especially in digital environments, where traditional face-to-face explanations are absent, timely, contextualised, and user-friendly disclosures must become the norm and not the exception; especially when costs or impacted return are at play.

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?**

This question is complex and non-specific. Therefore, we would repeat previous elements that retail investors often struggle to interpret cost disclosures under both MiFID II and PRIIPs as they are rarely presented in a clear or intuitive way.

Disclosures frequently combine one-off, ongoing, and transaction costs without a clear structure, making it hard to understand what matters most or how costs build over time. Moreover, we deem that although *net return after fees* is already required under MiFID II, it is often buried or poorly highlighted — reducing its value for informed decision-making. Investors are also confused by inconsistent terminology and complex formats, especially in digital environments where cost information is often fragmented, highlighting the need for clear explanations.

Yet, improving disclosures does not mean adding more information but rather making key figures clearer, simpler, and easier to compare. Costs disclosures should be guided towards layered by importance, clear breakdown presentation: a simplified first layer with essential data (total costs in % and €, cumulative cost effect, net return after costs), with deeper breakdowns following. The distinction between manufacturer product costs, distributor inducements, and service fees (and any tax accounting) must also be made clear, as these can be mixed or omitted entirely despite investors having to pay for them. Any changes should be subject to mandatory behavioural testing to avoid adverse consequences and ensure that any new format or standard is useful in practice. The goal is to enable key data and thus comparability between providers at a glance.

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.*

As noted above, when firms display cost and charges information using layered approaches on digital platforms and mobile apps, the implementation is inconsistent. We note that sometimes only summary figures (total amount and percentage) are shown upfront, while detailed breakdowns are hidden in secondary PDFs or sub-menus. This inconsistency can make meaningful comparison between services difficult and may even be designed to obscure important details — such as inducements, product-level costs, or cumulative impact — rather than making them accessible to retail investors.

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)**

Quarterly statements play a vital role in ensuring post-sale transparency and enabling retail investors to monitor their portfolios at a reasonable pace. BETTER FINANCE sees them as an essential component of investor protection under MiFID II — provided they are accessible, intelligible, and outcome-oriented. For many investors, they offer a periodic snapshot of portfolio composition, realised performance, and fees incurred, helping them assess whether investment and portfolio management outcomes align with expectations. These reports also serve as a practical anchor for accountability, allowing investors to identify discrepancies or unjustified charges.

That said, the format and usability of these statements may fall short for investors when they seek to understand (real) net performance and cost. Many remain text-heavy, jargon-laden, or difficult to access (considering PDF documents in digital portals, mobile apps or via platforms only). The main issue highlighted once again is that returns and cost information are often buried, which limits their practical usefulness. For example, annual life insurance statements in France often run over 10–13 pages, with no prominent display of net returns, frustrating even informed savers. This reinforces the need to move beyond mere compliance towards effective communication to enhance the consumer journey at key stages of the investment lifecycle. This call for a shift toward layered (key information first; incl. returns and cost), digital-first quarterly/annual statements, complemented by a print version when requested. These should include clear visuals on cost breakdowns (including inducements), net performance, and, where possible, comparability over time. For direct equity or bond holders, the quarterly format remains highly relevant — especially when it enables monitoring of corporate actions or long-term returns. But for fund investors or digital-only users, statements must evolve to reflect real-time access habits and highlight what matters most, when it matters most. We would suggest consumer

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testing initiatives to streamline the statements and increase their usefulness by focusing on real net performance evaluation and overall cost (with a detailed breakdown), presented in a more standardised and user-friendly fashion.

Q21.a – 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)**

We consider the 10% depreciation alert rule an important protective tool, particularly for leveraged financial instruments, where losses can compound rapidly and may not be obvious to retail investors. When these alerts are clearly framed and contextualised, they can prompt investors to reassess risk exposure and take appropriate action, supporting the core goals of investor protection. For this reason, the alert regime for leveraged products should be maintained for all retail clients. Only investors who meet the criteria of a robust, qualified investor (semi-professional) regime — demonstrating both loss-bearing capacity and experience — should be allowed to adjust or opt out of these mandatory loss notifications.

For the case of portfolio management, the 10% alert threshold should remain the default for retail clients, while consideration should be given to allowing adjustments to alert triggers (personalisation, providing it fits the investor's risk profile). In any case, such as when referencing agreed benchmarks, adjustments should only be made if there is clear disclosure and the changes genuinely align with the client's understanding and fit within their risk profile.

Moreover, we note that even in execution-only (self-directed) settings for non-leveraged, simple securities (equities, ETFs, bonds), these alerts may not be mandatory. However, some investors seek such functionality; thus, voluntary/customisable loss alerts could be encouraged as a digital empowerment tool, enhancing monitoring without overwhelming less-active investors (based on stock and/or portfolio value). This approach would allow clients to set personalised risk parameters, driving engagement and awareness while preserving choice.

Ultimately, the core issue is not the existence of the alert, but its framing, context, delivery, and the nature of the service provided. Regulators and providers should ensure alerts use plain language, are delivered via user-centric digital interfaces, and — where appropriate — firms should be encouraged to use reference benchmarks to help investors distinguish between normal fluctuations and more serious downturns.

Q21.b – If considered necessary, how could the 10% loss reporting be improved?

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As introduced in Q21.a, we favour a nuanced position where such protection remains essential, but any adjustment should be aligned with the diverse risks and needs across the retail investor spectrum (experience, profile), as well as with the different service models and product types that mandate protections. We therefore caution against the blanket removal of the 10% loss reporting. Moreover, contextualisation is key: digital interfaces should support these alerts with relevant framing and visualisation tools, and periodic statements (such as quarterly reports) could reinforce their informative value by providing clear summaries/trend indicators.

In particular, the 10% alerts should always remain mandatory for leveraged, complex products, where losses can be rapid and significant (e.g. margin calls, options). Any flexibility to adjust these thresholds should be limited to qualified investors under a specific appropriate framework (yet, currently inexistent).

Looking ahead, adjustability could be considered more broadly. For discretionary portfolio management, the 10% portfolio value depreciation alert should be retained as a default safeguard. Ideally, provisions should also encourage a more contextualised approach. Only specific conditions should enable the depreciation alert threshold to be tailored to the client's individual risk profile and investment objectives, within the boundaries of a robust suitability assessment (tied to a standardised range of variation). This should be conditional on a clear opt-in mechanism and full transparency regarding the implications of such adjustments. Furthermore, benchmark-based comparisons could serve as an additional reference point to help investors assess whether losses stem from broader market movements or potentially suboptimal portfolio management; thereby enhancing the diagnostic value of the alert without triggering unnecessary alarm.

In self-directed accounts and where instruments are limited to simple (non-complex) products, we understand that the 10% depreciation alert is not mandatory. Nonetheless, we recognise the value of optional alerts and digital contextualisation tools when made available. These features can empower interested investors to monitor losses proactively, while avoiding unnecessary disruption for others. Therefore, we encourage the development of a clear framework in which firms may offer such alerts as an adjustable standard (starting at 10%), applied selectively based on portfolio composition, individual securities, value thresholds, or relevant benchmark.

Moreover, it has been observed that in jurisdictions where key value change notifications — such as 10% movements — are integrated into quarterly portfolio management statements, this has proved beneficial in terms of supporting duty of care. It ensures that all investors, regardless of the service model, are kept informed when relevant. This could establish a useful baseline mechanism also for self-directed accounts, particularly when paired with visual tools, without contributing to alert fatigue. The digital environment is well suited to deliver such reporting periodically and in context, also as a value-added service.

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.*

- **A major barrier to investment**

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

While not the primary obstacle to investing, customer due diligence (CDD) under AML/CFT rules has sometimes created friction that can deter retail clients, especially in a cross-border context. The problem is not the rules themselves, but their inconsistent and often burdensome implementation.

From a retail investor's perspective, CDD procedures can feel disproportionate and poorly explained, leading to onboarding refusal or delays, repetitive documentation burdens, and a "hassle factor" that may discourage switching providers. These frictions can either prevent the firm from servicing a consumer or effectively reduce competition by making it more difficult to onboard. The root causes are twofold: first, the frustrating, fragmented application of CDD rules across Member States ("gold-plating"); and second, inconsistent practices between firms.

Investor fatigue grows when customer due diligence (CDD) leads to repetitive or inconsistent information requests. Instead of a bottleneck, CDD should be an enabler for a seamless investor journey, while avoiding unjustified service restriction/exclusion. This requires an integrated, not a siloed, approach. For example, linking CDD processes to account portability would eliminate repetitive checks when switching providers, while coordinating them with tax frameworks could simplify cross-border withholding tax relief. At the same time, cross-border documentation requirements must be harmonised, and firms' risk assessments should be based on clear, proportionate criteria. We note that as AI-driven evaluations become more common, strict safeguards aligned with the AI Act and GDPR are essential to prevent bias and protect investor data.

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.*

Please refer to our response to Question 22.

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.*

Tax-related issues remain a significant deterrent to cross-border retail investment within the EU, compounding the other structural frictions such as product complexity, servicing limitations, and account transferability. In practice, tax frictions can augment the feeling of a full-time job for non-professional investors, even with small portfolios, and particularly when investing in a cross-border context.

First, withholding tax treatment is a prime example. BETTER FINANCE study revealed that over 70% of investors find reclaim procedures too complex or costly, with only 30% attempting a reclaim, of whom a majority fail to recover any amount. Refund delays (often over two years) and reclaim fees (commonly exceeding €100) make the process particularly prohibitive for small investors and direct securities holders. In some cases, bilateral treaties (e.g. France-Belgium) result in de facto double taxation. While the FASTER

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initiative and digitalisation process is a welcome step, BETTER FINANCE cautions that relying solely on certified intermediaries may disadvantage many non-professional investors using smaller firms and who may lack direct access or effective servicing. In practice, this approach may fragment liability along the investment chain and deprive investors of clear contact points and administrative clarity. An EU-wide gateway (for tax status validation or document exchange) should be developed to empower individual investors. More broadly, uncertainty over the tax treatment of foreign products and the lack of standardised, multilingual, or pre-filled forms discourage cross-border investment. Many retail clients either fear administrative errors, unclaimed reliefs, or non-compliance due to limited support from intermediaries. This also reinforces "home bias" and reduces product diversity/competitiveness; ultimately undermining the goals of the Capital Markets Union and the future Savings and Investment Union.

Account transferability and provider switching are also further systemic issues that can trigger tax problems. Retail investors may face platform exit fees or trigger unintended tax events (capital gains liabilities or the loss of tax-advantaged status) when switching providers across borders. In some cases, notably in self-directed environments, transfers are simply not possible due to platform constraints or asset structure (non-standardised assets, or other safeguards models). This undermines basic shareholder rights, as confirmed by a court in Germany, which recognised the right to transfer as a core entitlement. To prevent discriminatory practice, consumer entrenchment and unintended or forced tax events, clear EU rules on the right to transfer should be mandated. Fees should be capped, and even considered to be waived for standard liquid products, to foster sound competition among providers and cross-border transfers.

Another factor complicating the investor journey is that many digital brokers and online platforms operating under the passporting regime do not offer comprehensive or local tax servicing. In practice, investors are frequently left to manage not only capital gains, but also specific transaction taxes, or cross-border withholding tax (WHT) filings on their own (if possible) — often with little advance information or guidance on how to handle such procedures. The absence of standardised support both deters cross-border engagement and complicates compliance for European firms. Such limiting servicing increases the risk of mistakes by individuals.

Another issue arises with innovative offerings like fractional shares, which can present similar challenges. These instruments are often non-transferable due to 'sub-omnibus custody' (often firm-based) models and their bilateral execution arrangements. Without a post-trading interoperability framework or compatibility with lit market trading, self-directed investors face obstacles when switching platforms, particularly when choosing to build diversified portfolios with fractional securities. Overall, we see a need to address these issues under account portability, tax transparency and enhanced facilities of related reporting/handling between EU firms and national authorities guided by EU principles, and harmonised transfer processes cross-border and between firms. Moreover, establishing a clear EU definition and treatment of fractional shares/securities holdings would prove beneficial. This may require initial regulatory guidance, followed by market infrastructure solutions to improve the issues mentioned above.

In parallel, we reiterate that the EU should find ways to address product bias (via tax and advisory frameworks) — since differentiated national tax frameworks often favour insurance-based or structured products, disadvantaging further simpler, transparent

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instruments such as ETFs or listed shares cross-border. The idea of establishing a label for European Investment Savings Accounts should be linked to much simpler tax treatment, product-neutrality, low-cost access, and transferability. It should also embed key investor rights under a common set of standards and criteria that build confidence in investment and uphold service quality across the board.

Finally, a much-needed simple Pan-European Pension Product (PEEP) is exemplary of such frictions, where its low uptake partly stems from its fragmented and non-binding tax incentives. These examples illustrate that unless tax rules are harmonised (or at minimum mutually recognised and streamlined for both investors and financial intermediaries, also to prevent double taxation and WHT relief), the full cross-border potential of European products/accounts will remain constrained, undermining the objectives of a genuine Savings and Investment Union.

Q26 – For consumer organisations: Based on your interactions with retail investors, do they experience information overload when making investment decisions? If so, what are the main sources of this overload? Do regulatory disclosures, marketing materials and contractual documents support investor understanding, or do they contribute to the confusion? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

We acknowledge that information overload is a real issue, yet it is not the primary cause of disengagement among retail investors. Rather, it is a symptom of poorly structured, fragmented, and insufficiently prioritised compliance-driven disclosures. Effective information should empower investors by clearly distinguishing product types, key features, and risks — enabling informed decision-making rather than hindering it.

A core problem lies in the difficulty of discerning essential characteristics quickly (even under supposedly 'standardised' documents such as the PRIIPs KID. This contributes to confusion, particularly damaging the ability to compare products and costs between and across categories (e.g. IBIPs, investment funds, structured products). In general, information is too often scattered across unaligned documents (PRIIPs KID, MiFID II disclosures, terms and conditions), without a coherent hierarchy or presentation along the 'investor journey.' Yet again, essential elements (such as total costs/breakdowns, real net returns, risk profile by time horizon, or liquidity and exit conditions) are either not disclosed or not presented in an intelligible, consistent, or sufficiently prominent manner.

Moreover, some product categories, such as occupational pension schemes (e.g. IORPs) or nationally regulated unit-linked life insurance policies, fall outside the scope of EU-wide disclosure rules like MiFID II or PRIIPs. In these cases, key pre-contractual information may be inaccessible or entirely absent. The result is inconsistent transparency across Member States regarding costs, guarantees, and surrender conditions; further impeding comparability and trust. As for disclaimers and warnings, they are often drafted in compliance-heavy language and often fail to provide informative or product-specific guidance. They do not help investors to *contextualise* real risks in relation to their own goals and profile. Moreover, pre-contractual information is not always easily accessible or visible, nor is it tailored to digital environments. Yet again, prospective investors face excessive prominence of forward-looking performance scenarios in PRIIPs KID, adding to confusion. In fact, these scenarios unnecessarily resemble initial promotional material, lacking balance and obscuring real cost effects (e.g. costs buried within the Reduction in Yield figures). Critically, they are not offset by more meaningful past performance data against a benchmark, nor do they include indicators of real net returns. The absence of inflation-adjusted figures further distorts expectations, contributing to monetary illusion and disengagement. While retail investors cannot be expected to be financial experts, they must nonetheless be able to grasp the core characteristics of the products and services they are offered and assess their suitability. Thus, we caution against the blunt reduction of disclosures, as this risks exacerbating information asymmetries and weakening key investor protections. In fact, the real challenge lies in the structure, accessibility, and relevance of information within the current distribution model.

Too often, investors are unaware of whether the advice they receive is independent or tied, or whether recommendations are shaped by inducements. This confusion stems from the inconsistent regulatory treatment of advice under MiFID and IDD provisions. Without a level playing field and prominent disclosure of the service model and remuneration structure, investors cannot effectively assess conflicts of interest or judge the impartiality of the products they are offered. Another issue may lie in digital interfaces blurring the line between advice, product placement, and marketing. Investors may feel nudged toward "featured" products, where context and vital information is often inconsistent or hidden behind PDFs or contractual fine print.

Ultimately, a cross-sectoral approach to disclosure reform is needed. The focus must shift from volume to clarity, comparability, and contextualisation, using a layered approach to present key product indicators and service-level provisions, including inducements. A mapping of 'vital' information is also needed for securities, to mandate "at-a-glance" information. Infographics should significantly improve understanding and restore comparability, both of which we call for as central regulatory objectives, as they contribute to financial literacy and informed decision-making.

Q27 – For consumer organisations: Are there specific examples where the way information is presented – whether in regulatory disclosures, contractual agreements, or marketing material – makes it difficult for investors to focus on key elements such as costs, risks, or the nature of the service? With regard to marketing material, is the fragmentation of information across different documents or channels a material issue that affects investors' ability to fully understand what they are buying? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Please refer to our answer to Q26.

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.*

Retail investors experience the suitability assessment process as opaque and often as quite burdensome, ultimately leaving them confused about how the information provided relates to their actual investment goals. The current approach to periodic updates frequently feels like a legal formality designed to protect firms, rather than a tool that delivers investor-centric outcomes or triggers real adjustment. Among key issues that may appear are overly complex and repetitive data requests, lack of user-friendly digital interfaces, and failure to account for the product's actual suitability over time (its cost structure versus time horizon and objectives).

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BETTER FINANCE has also flagged cases of inappropriate fund suggestions (e.g. money market funds as long-term savings). We recommend shifting from a compliance box-ticking exercise to an outcome-based framework, integrating intuitive digital updates, simplified questionnaires, and clearer links between product features and investor goals. The collection of personal data should be proportional and meaningful, enabling periodic reassessment without overwhelming users. Suitability reports and recommendations must include net return estimates and cost efficiency metrics in plain language.

Q30 – For consumer associations: Have retail investors raised concerns about the amount, frequency and type of information they are required to provide for the purpose of suitability assessments? If so, what are the main difficulties they face? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Please refer to our answer to Q29.

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.*

The information collection process can and should be simplified to better serve retail investors without diluting protection. BETTER FINANCE has supported reforms that move away from lengthy, rigid, and compliance-driven questionnaires toward a more intuitive, goal-based framework. For instance, questions should be dynamically adapted based on investor intent (e.g. retirement saving vs short-term liquidity needs). Any updates should therefore be prompted only when relevant — such as after major life changes or investment triggers — rather than at arbitrary intervals.

Digital forms should clearly explain why each piece of information is requested and how it impacts the suitability outcome, participating in educating investors on understanding product delivery. Moreover, standardising key inputs across providers would also ease comparability and reduce duplication. Above all, the process should ensure that outputs are usable: suitability reports must present product recommendations in terms of long-term cost, risk, and expected return, not just broad risk labels. Streamlining input should be paired with more meaningful and comprehensible output, aligned with the goal of empowering rather than exhausting the investor.

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.*

We can state that European retail investors are showing interest in investing based on sustainability guidelines, yet they faced tremendous hurdles in the investor experience; whether due to a lack of awareness of ESG guidelines or by lack of proper investment advice. The Invest for Better Climate EU surveys reported that nearly 90% of the respondents were motivated by environmental or climate goals while investing, either through the means of capital growth, positive impact, or both. Most, however, began with a limited knowledge of how investing could contribute toward these objectives, particularly regarding climate-aligned products, risk management, and identifying greenwashing. This showcases complexity trends: retail investors struggled to articulate their ESG priorities in understandable terms, and therefore, advisors could not deliver

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personalised portfolios. Prior to the training, only 5% of investors comprehended sustainable investment options as clearly accessible to them, while 6% could spot greenwashing. Following exposure to an impartial, NGO-organised education campaign, individual investors' overall understanding was improved by 46%, highlighting the crucial role of non-commercial financial literacy initiatives in supporting investor decision-making.

Trust is also a basic barrier, as on the ESG metric, investors universally preferred independent education over advice settings tied to product sales. However, this sample showed that only 8% knew where to turn initially to receive free and independent financial advice; this increased to 27% following training, but still half didn't know. Misunderstanding of financial "advice" and "education" remains a challenge, particularly on sustainability matters, where a lot of retail investors are uncomfortable with advice that might put the emphasis on sales rather than objectives for its continuation.

Lastly, the investor route to sustainable investing is limited by low financial literacy, lack of transparent product details, and unequal integration of ESG preferences in advice conversations. While demand for sustainable investing is strong, particularly among women and across younger generations, successful engagement is dependent on narrowing the knowledge gap and rebuilding confidence in financial intermediaries. Directed, impartial education, alongside a well-defined separation between advice and education, is essential to facilitate well-informed, secure engagement in climate-conforming investing, and, by extension, to ease the investor journey.

Q33 – For consumer associations: Have retail investors expressed concerns about the new elements related to the "sustainability preferences" and the way they are incorporated into the investment process (are they explained in an understandable way to clients)? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

See previous Q32. Additionally, evidence from the BETTER FINANCE Robo-advice 2022 Report also revealed long-standing structural flaws in the way that retail investors are approached with the integration of sustainability into investment advice, particularly through digital/automated means. The sustainability assessments were evaluated as superficial. In fact, only 2 of 16 sample platforms analysed had a comprehensive approach, while many others treated it as a box-ticking exercise that failed to address pertinent questions regarding ESG strategies such as exclusion, engagement, or impact investing.

Most robo-advisors make nominal decisions or have clients go back to complete the suitability questionnaire if their choices are incompatible with the products made available. This leads to a fragmented user experience where sustainability is recognised technically but not properly implemented. As a result, investors are discouraged or misled, especially those who genuinely seek to reconcile their investments with environmental or societal goals. Only a few platforms considered indicating whether their "sustainable" products employ a taxonomy-conformant, impact-driven, or merely thematic screening approach.

Furthermore, where sustainability preferences are not aligned with the limited product choice on the platform, some robo-advisors simply recommended refilling the questionnaire or selecting "more flexible" sustainability preferences. This has the operational consequence of requiring users to scale back their ethical aspirations to fit the platform's limitations rather than refining the investment strategy to the client's genuine values. Overall, the investor experience in robo-advice platforms illustrates a growing gap

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between formal compliance and material provision of sustainability-focused investment advice. Investors are faced with a confusing landscape where options appear ESG-friendly in name but often fail to live up to their announced sustainability requirements.

Q35.a – 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.*

Retail investors rarely find suitability reports helpful in understanding why a specific investment was recommended. For further elaboration, please refer to our answer to Q35b.

Q35.b – For consumer associations: Do you think suitability reports are a useful tool for the protection of investors and the prevention of mis-selling? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

In their current form, suitability reports too often fall short of their intended role as tools to protect retail investors or prevent mis-selling. While the MiFID II framework rightly mandates that recommendations be documented and justified, BETTER FINANCE's research (including mystery shopping and robo-advisor testing) reveals that these reports are frequently too generic, overly technical, and poorly aligned with the client's real needs. They are widely perceived by retail investors as compliance paperwork rather than a tool to support decision-making.

A critical illustration is the disconnect between the quality of the suitability questionnaire and the appropriateness of the advice in terms of expected optimal asset allocation. BETTER FINANCE found that platforms with minimal questioning sometimes provided better-aligned portfolios than those with longer, formalistic forms; indicating that advice quality is often driven more by product shelf limitations and distribution incentives than by the assessment process itself. This is especially problematic in commission-driven environments where the range of products is pre-filtered by internal sales priorities, not investor interest. Again, a striking example of misalignment was reported to us: money market funds being recommended for long-term or retirement savings goals. These products are designed for capital preservation over short horizons and offer low nominal returns, often below inflation. Yet, due to their "low risk" label and low volatility, they have been classified as suitable — even when clearly incompatible with the investor's time horizon or return expectations. The suitability reports failed to highlight this mismatch, nor did they contextualise the potential erosion of purchasing power. Moreover, the suitability report rarely explains why certain products were excluded or whether more cost-efficient, better-aligned options were available. This lack of transparency is compounded in digital and non-advised environments, where suitability becomes a checkbox exercise with no meaningful interaction or challenge. Reports often rely on templated language, lack a clear rationale, and do not visualise the risk-return trade-off or cost impact over time.

To improve investor protection and restore trust, BETTER FINANCE a fundamental rethink may be necessary. Suitability reports should be concise, intelligible, and designed to explain the product range, not just comply. A simplified one-page format could clearly link product features (e.g. cost, liquidity, risk) to investor goals and profile, highlight why alternatives were not chosen, help flag red flags such as holding period mismatches or underperformance risk. Most importantly, these improvements must be accompanied by stronger enforcement of the duty of care, independent oversight of advice channels, and

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an end to distribution-driven inducement models. Only then can suitability reports become genuine instruments of protection, helping investors avoid poor outcomes rather than legitimising them post hoc.

Q36.a – 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).**

BETTER FINANCE considers that the current appropriateness assessment under MiFID II often fails to ensure that retail investors understand in practice the risks of the products they invest in. Too often, the assessment adds little value and imposes administrative burdens on clients without delivering meaningful investor protection. Retail investors are often unaware that the test is being conducted and frequently confuse it with the suitability assessment, further undermining its effectiveness. Moreover, the assessment commonly relies on self-declared knowledge rather than structured questions, leading to superficial evaluations that fail to test actual product understanding, particularly in digital or execution-only environments.

Critically, the appropriateness test does not address key investor protection concerns: it does not assess whether a client can bear potential losses, whether the product's risk-return profile aligns with the investor's needs, or whether the holding period is appropriate. This gap is especially dangerous when complex or leveraged products are misclassified as "non-complex" to bypass scrutiny. We have documented cases where risky products like leveraged ETFs were offered as execution-only without proper warnings, exposing clients to significant losses. Even when warnings are issued, they tend to be vague, generic, and easily dismissed - particularly online. If a product is not appropriate, it should not be offered to retail investors to begin with.

We therefore argue that the appropriateness regime, as currently designed, serves as a regulatory middle ground between suitability and target market classification, without delivering actual real protection, yet it may serve as an information basis for investors. BETTER FINANCE recommends replacing or significantly reforming the appropriateness test. Either all "offered sales" should be subject to suitability assessments (advice-like protections) or the appropriateness test should be eliminated where execution-only conditions apply, based on a clearly defined and reliable "non-complex" classification that genuinely promotes simple products. In addition, a reform could better call for structured knowledge checks, scenario-based risk disclosures, and better alignment with time horizon, loss-bearing capacity, and cost complexity. Only through such reform can the appropriateness assessment become a genuine safeguard rather than a procedural or administrative formality. Only a handful of investors would be deterred from investing if

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given access, while qualified investors would rather fall under a distinct regime to gain access to certain more complex products.

Q36.b – For consumer associations: Have retail investors raised concerns about the appropriateness assessment? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Please refer to our answer to Q36.

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.*

For further elaboration, please refer to Q11. BETTER FINANCE considers that MiFID II appropriateness rules are neither fit to the legacy framework — with shortcomings in product governance, inconsistent risk warnings, and insufficient curbs on distribution-incentive biases (inducements) — nor to the rise of hybrid digital services that blend payments, savings, and investing. While fintech improved access and reduced costs, many platforms now offer "complex service" features. Some offers fall through regulatory cracks because MiFID II remains product-based, whereas digital finance operates at the service-bundle level, reshaping how users make financial decisions.

The one-stop-shop model can improve access, but safeguards must match *service-level* complexity. Frictionless interfaces and disclosure layering can defer or bury critical warnings; personalisation and cross-selling (often influenced by inducements) can steer users toward investment-linked payment features that feel simple but mask risk. Positive nudges (round-ups/DCA) may obscure complexity and, under execution-only set-ups, **bypass appropriateness entirely**; even when tests run, they rarely capture *service-level* risks such as order routing, FX mark-ups, inducements, or auto-features.

A more serious concern is spending mechanisms that liquidate assets to fund card/wallet outflows. These can erode purchasing power, trigger unplanned sales with unclear timing/spreads, and create unforeseen tax liabilities (e.g., capital gains or loss of allowances), including cross-border complications rarely explained in real time. Similar issues arise with "crypto spending cards" that mask costly conversions and mark-ups.

To ensure appropriateness in such cases, rules should move beyond static product tests towards a **clear, measurable duty of care**, aligned with an outcome-based "investment journey" approach inspired by the UK FCA Consumer Duty. This would require pre-activation steps for complex features, ongoing or trigger-based re-checks, and service-level disclosures that integrate execution quality, tax impacts, and risk. It should also apply to loosely regulated or unregulated hybrid services, ensuring that interface design, personalisation, or inducement structures cannot obscure product risk. Supervision should assess whether these bundled services deliver good client outcomes across the full lifecycle, not merely formal compliance.

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.*

No feedback.

Q39.a – 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.*

This approach has the merit of avoiding a mere tick-the-box exercise and offers the potential to clearly explain to individual investors why certain products may not be appropriate to them.

Q39.b – For consumer associations: Have retail investors raised concerns about how their knowledge and experience are assessed? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Please refer to our answer to the previous question.

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.*

BETTER FINANCE has limited insight into crowdfunding and crowdlending activities. However, we note that the retail investor base in this space is not homogeneous and seems to appeal to very different segments. It includes socially motivated investors seeking both financial and societal returns (impact, local business support), as well as niche retail clients pursuing diversification. These groups may exhibit distinct risk profiles and information needs that the current regulatory framework may not yet adequately address. A key weakness may lie in the quality and usability of disclosures, particularly when it comes to informing investors on the specific risks of crowdlending. While the introduction of the Key Investment Information Sheet (KIIS) is a positive step, it could be streamlined, and more informative and standardised. Essential information such as illiquidity risk warning, capital loss risk, total costs, and be presented in a visual format along with explainers; all in easily comparable format (and therefore less platform-dependent). Critically, investors must be warned in plain language in cases crowdfunding/crowndlending is used as a last-resort financing channel, and also when no secondary markets exist. In fact, liquidity information appears primordial for non-professional investors. Moreover, there is often insufficient explanation of what happens if a platform fails, particularly regarding the repayment process — a scenario increasingly relevant in real estate crowdlending defaults. Equally, platforms should be required to disclose the level of due diligence they have performed, allowing investors to better assess an offer's credibility. Furthermore, the onboarding process should always remain in place but should be meaningfully improved. The required tools must be reframed as educational, not merely procedural. Platforms should rely on unbiased, interactive modules to support investor understanding. Clearer guidance is also needed on how test outcomes are used, and whether failing them should actually restrict investment access.

Crucially, when the trustee or representative of the investor group ceases to function, investors are often left without any mechanism for collective enforcement. Since such

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roles are not always transferrable and secondary markets remain largely absent, this creates a legal and practical void in protecting investor rights. The regulation should therefore anticipate this scenario and require robust contractual safeguards or backup mechanisms to ensure continuity of representation and redress.

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.*

In an attempt to summarise our position developed throughout this consultation, BETTER FINANCE considers that the current regulatory framework does not yet strike the right balance between investor protection and enabling informed risk-taking. While MiFID II sets out important safeguards, it fails in practice, also in terms of product governance and disclosure obligations. Measures remain largely procedural, input-driven, and disconnected from real investor outcomes. In practice, retail investors still face biased advice, restricted access to cost-effective products, and widespread disengagement due to complexity, mistrust, and a persistent lack of comparability. As product disclosures are fragmented and overly technical, and key investor protection tools (such as suitability reports or appropriateness warnings) are formalistic, investor empowerment will be limited across their investing journey. When a process fails to explain how a product aligns with client goals or to trigger meaningful safeguards, serious misalignment can occur. For example, money market funds recommended for retirement or leveraged products sold in execution-only environments are just two cases documented by BETTER FINANCE, highlighting the gap between intended regulatory design and actual market conduct.

Moreover, independent, provider-neutral advice remains a rarity in most EU Member States. Regulatory exemptions, including execution-only regimes and inconsistent "non-complex" classifications, often allow unsuitable products to bypass scrutiny altogether. This framework gives retail investors an illusion of protection, while structural incentives — such as inducements — continue to steer them toward underperforming, high-fee offerings under the guise of advice. BETTER FINANCE therefore calls for a shift toward an outcome-based supervisory approach (inspired drawing from frameworks (such as the UK FCA's Consumer Duty). Firms should be required to demonstrate that products deliver long-term value, are understandable, and match the investor's needs – not just tick procedural boxes.

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.*

We welcome ESMA's initiative to scope the 'investor journey'. Yet, a more comprehensive mapping of supplementary issues could follow. For instance, this consultation does not yet fully capture critical developments that increasingly shape — or undermine — today's investor experience, particularly outside the core MiFID II framework. Notably, the rise of online scams (including clone firms), unregulated "finfluencers" and covert advertising, AI-generated trading signals, and copy-trading platforms exploit behavioural biases, evade regulatory scrutiny, and leave investors exposed with little accountability, recovery, or redress. In parallel, the consultation does not address systemic weaknesses in redress mechanisms, particularly for cross-border retail investors and minority shareholders, where access to effective resolution and enforcement remains limited.

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