The New Investing Environment for Retail Investors | Expectations and Challenges Ahead

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Report in support of BETTER FINANCE's Response to the European Commission's Consultation on an EU Strategy for Retail Investments

BF BETTER FINANCE

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

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About BETTER FINANCE

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the public interest non-governmental organisation advocating and defending the interests of European citizens as financial services users at the European level to lawmakers and the public in order to promote research, information and training on investments, savings and personal finances. It is the one and only European-level organisation solely dedicated to the representation of individual investors, savers and other financial services users.

EXECUTIVE SUMMARY

The EU needs a Capital Markets Union "*That Works for People*"[1] and brings significant benefits for individual, non-professional investors. This is now pivotal, as the recovery from the economic downturn triggered by the global health pandemic will rely on the stable, long-term financing of EU households.

Saving and consumption changes due to the COVID-19 pandemic

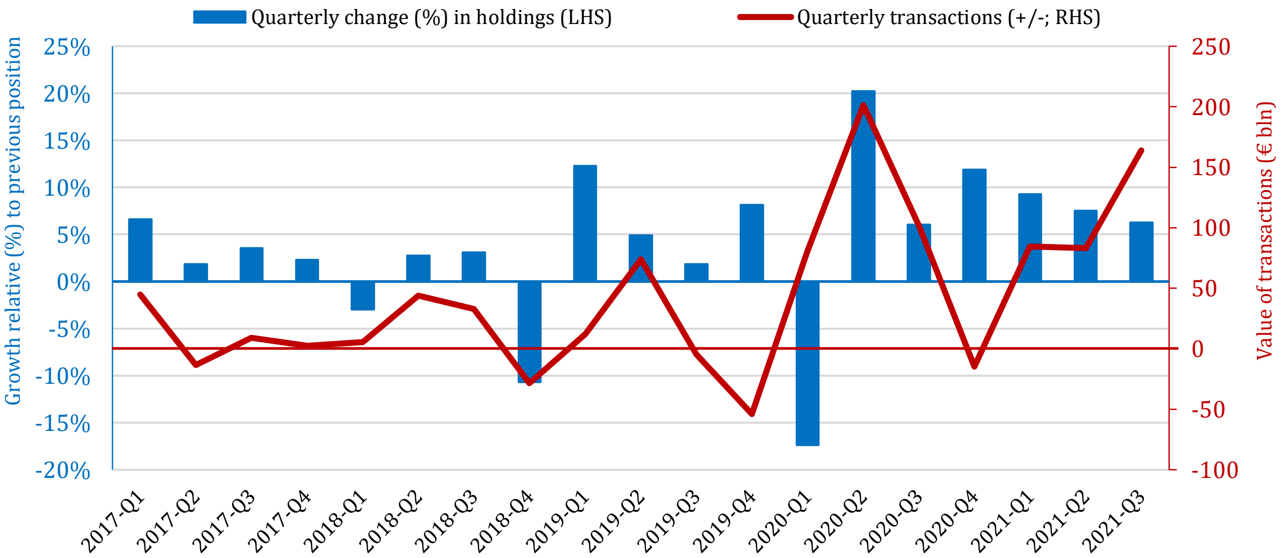
The last two years' activity restrictions brought about two significant developments. First, EU households put aside far more of their net disposable income in 2020 and 2021. Second, previously inactive EU savers started investing in the real economy and trading in financial instruments. This means that a new, fresh wave of individual, non-professional investors entered capital markets, investing directly (brokerage accounts) or indirectly (investment products).

BETTER FINANCE analysed the increased investing activity at the local level in twelve jurisdictions with the help of data from local securities exchanges, financial supervisors, shareholder associations, or official statistical offices: Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Portugal, Romania, Spain, and Sweden.

Most savers increased equity exposure and bought investment funds

Available data exhibits an increase in listed equity holdings due to the higher number of trades on stock exchanges, lower average values and volumes per trade, which suggests a stronger presence of retail investors. The number of individual shareholders grew significantly, especially in Germany, Spain, Belgium and Finland (most probably across all other jurisdictions, even though clear data is not available). At the same time, the number of trades per year increased in general, as well as the number of mutual fund investors across the EU.

EU27 households' listed equity holdings vs transactions (quarterly)



Source: Own composition based on ECB SDW data, 2022

On aggregate, Eurostat data shows that the capital flows and holdings (quarter by quarter) in listed equities grew in 2020 and 2021, which can be cross-checked with data series at national level. This also explains the increase in brokerage account openings observed empirically in certain jurisdictions.

[1] Mission letter from Ursula von der Leyen President-elect of the European Commission to Valdis Dombrovskis, Executive Vice-President-designate for An Economy that Works for People, 10 September 2019.

How can we keep retail investors in the marketplace?

BETTER FINANCE researched the factors behind the increased retail investing activity to understand the impetus behind this trend but also the risks and challenges that must be addressed to create an optimal investing environment for retail savers.

To begin with, digital innovation and FinTech played an important role. Neobrokers have come of age and seem to attract many individual, non-professional investors – in particular the younger generations – through three key features: easy and readily available access (“*fingertip finance*”), low or zero-commission models, and a wide range of execution-only services for investors. Whereas neobrokers bring many benefits, the model also comes with supervisory and regulatory challenges. Among the latter, the research team found that some neobrokers do not offer all the shareholder-related services, which constitutes an issue in light of the Shareholders Rights Directive (SRDII). Robo-advisors continued to grow the number of users and the capital managed: at global level, almost 150 million new users were recorded between 2019 and 2021.

There have been two important developments regarding shareholder activism. For one, we note the changes in the way annual general shareholders’ meetings (AGMs) are being held since the start of global health-related restrictions, i.e., virtual AGMs enabled under emergency laws. These changes unfortunately had the opposite effect to strengthening shareholder involvement: virtual AGMs hampered dialogue between investors and boards. Second, the effect DeFi (*descentralized finance*) may have on investor activism given that shareholders are not adequately motivated or offered the possibility to exercise their corporate governance rights. The rise in the number of investors seems to mainly constitute "passive" ones because they buy and hold shares but do not make use of the rights stemming from the shares.

Behavioural finance theories point to individual investors’ contrarian nature, meaning that they hold on to, or buy, “losing” stocks and sell the “winners”. This is the reason for which retail investors are known to “flatten the illiquidity curve”. Available academic literature allowed us to recreate a potential chain of behavioural biases, triggers, and market trends that determined this investing activity:

- hindsight bias and self-attribution may have given individual investors the feeling that the pandemic generated a unique investing opportunity;
- it also seems that the herding behaviour was more pronounced, since many previously inactive savers started to invest because others did;
- at the same time, social trading generated significant momentum, and will continue to do so, as more and more investors seek financial information on social networks and tend to follow or replicate the trades of others;
- investor activism and the decentralised finance trends also changed the behaviour of individual investors, increasing their propensity to invest;
- digital innovation and FinTechs also made investing more attractive for retail savers, particularly through easy and readily accessible platforms or applications.

Next steps

Current capital market regulations reflect the response of public authorities to the global financial crisis (2007-2008) as an attempt to restore households’ trust in the financial system and increase their participation in capital markets.[2] Since 2015, the Capital Markets Union action plans were launched, and the project is still ongoing. Despite many efforts, the accompanying policy actions have had a limited effect in BETTER FINANCE’s view, calling for a change of paradigm in the way the EU regulates and supervises financial markets: it should start with retail investors’ interests, not the other way around.

[2] Marnix Wallinga, *EU Investor Protection Regulation and Liability for Investment Losses: A Comparative Study of the Interplay MiFID & MiFID II and Private Law* (2021) Springer, Studies in European Economic Law and Regulation 20, p. 51 *et seq*.

This is all the more important since EU capital markets now have a much larger, tech-savvy, and active "retail" investor base, reason for which policy actions should aim at maintaining and further increasing it. BETTER FINANCE sees the need for swift and effective action to enhance the protection of retail investors, optimise their investing experience, and increase their financial literacy and, ultimately, trust in financial services. Only so will the EU be able to create a long-lasting and sustainable investing culture among households which will provide the much-needed funding for the real EU economy.

SUMMARY POLICY RECOMMENDATIONS

(*jump to detailed policy recommendations*)

1 ENABLE HYBRID ANNUAL GENERAL MEETINGS

The 2020 and 2021 annual general shareholder meetings' (AGM) season has enabled many more listed companies to hold virtual-only or hybrid (in-person and virtual participation) models, but certain adjustments should be further mandated in order to make, at least, the hybrid model a workable solution for the future.

2 EMPLOYEE SHARE OWNERSHIP AS A CATALYST

A very powerful tool to reach the objectives of the EU Strategy for Retail Investments and take important steps towards building the Capital Markets Union (CMU) is the development of employee share ownership (ESO), as recommended by the High-Level Forum on the Future of the CMU and by the European Parliament in 2020. In countries where it is developed, ESO has proven to foster equity culture among citizens, and to make companies more resilient and more sensitive to sustainability issues. Therefore, ESO should be considered as a key factor of a social taxonomy and key indicator of the social contribution of ESG investments.

3 FINANCIAL EDUCATION

The level of financial literacy and awareness of EU households has proven, and will continue to prove, pivotal both as a determinant of the participation rate of retail investors in capital markets and for their ability to make informed decisions when investing. As such, the EU should promote:
- financial education at school for the younger generations;
- investor education for adults, through two specific points:
    - -- at the retail point of sale, which requires that independent investment advice delivered by professionals with the required competency levels; and
    - -- at the workplace, which requires the promotion of Employee Share Ownership (ESO) and other corporate savings plans.

4 CLARIFY THE DUTY OF CARE

The obligation to "act honestly, fairly, and professionally in the best interest of clients" (Art. 24(1) MiFID II) must be strengthened and given enforceability by adding a clear precise and unambiguous definition for clients' best interests. The requirement for providers to act to deliver "value for money" should be included.

5 END THE CONFUSION BETWEEN "ADVICE" and "SELLING"

Currently, EU law does not distinguish between selling and advising on investment products when dealing with "inducements": in particular regarding those are charged as much on "execution only" investments as on "advised" ones. In this sense, BETTER FINANCE proposes a distinction between distributors who sell and those who advise (recommend) on investment products or services.

6 ENHANCE THE SUITABILITY ASSESSMENT

In order to ensure the availability of certain products for non-professional investors and enhance the design of those that are already intended for retail investors, EU law should:

- replace the appropriateness test with the suitability assessment for non-advised services, except for execution-only (Art. 25(2) MiFID II);
- incorporate in the target market and suitability assessment the probability of meeting the provider's value for money objective and the client's return expectations, in real net terms, over or at the end of the recommended holding period, or at least a reasonable probability not to erode the purchasing power of his savings over the same horizon;
- define toxic products as having a very high probability of delivering negative returns to the client from the start in real net terms.

7 SIMPLIFY and REDUCE CONSUMER DISCLOSURES

Investors are faced with information overload and too many warnings. EU law should reinforce the requirement on "fair, clear, and not misleading" information in consumer disclosures, providing comparable actual performance and cost information, while simplify and reduce the volume of disclosures for retail investors.

8 IMPROVE REDRESS TOOLS FOR "RETAIL" INVESTORS

Obtaining redress is a major issue for individual investors and savers. EU law must improve the functioning of both individual and collective redress tools for retail investors, particularly since the recently adopted Directive on representative actions excludes direct investors into capital markets.

9

REVIEW and STRENGHTEN THE LISTING ACT

The review of Prospectus rules should not come at the expense of investors, and the Prospectuses' quality for primary and secondary issuances needs to be improved. The primary listing Prospectus is a very important piece of disclosure for investors as it serves for evaluation purposes (pre-IPO), as well as building and enforcing legal claims against an issuer (post-IPO).

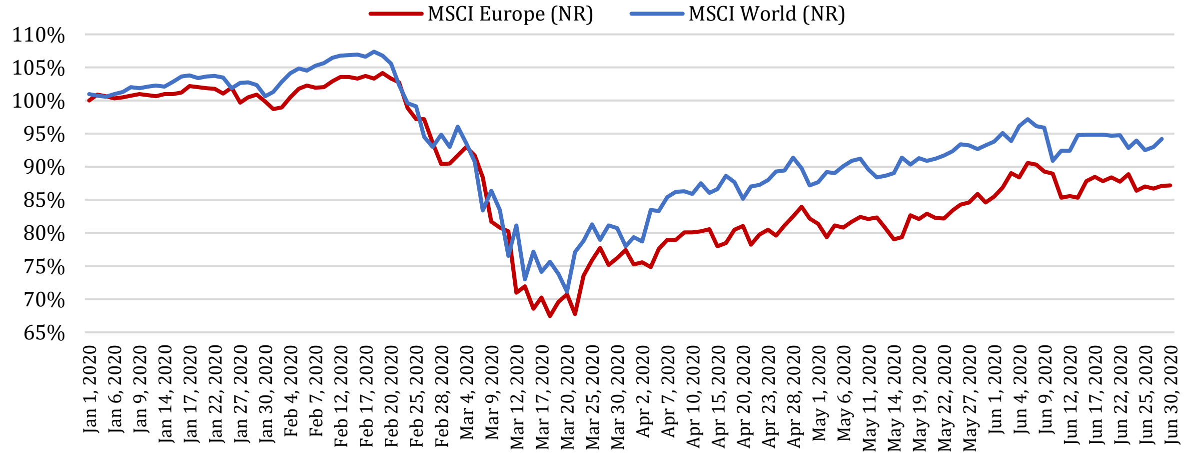
On secondary issuances, simplification of Prospectuses for established EU-domestic companies (with an existing track record) would be welcomed. It should be avoided, however, to introduce another, distinct Prospectus regime that would include different information than those currently required. We recommend conducting a targeted consultation for regulating secondary issuance Prospectuses to understand the informational demands of investors.

INTRODUCTION

The public health measures adopted in response to the global pandemic restricted consumption, both among professionals and consumers, and limited economic output.[3] As such, 2020 was marked by significant disinflation and even deflation among all EU Member States.

Financial markets responded negatively to the first wave of the pandemic as the number of cases were observed to be indirectly correlated with the performance of equity indices across 64 jurisdictions worldwide.[4]

Graph 1. Equity indices' performance during the first COVID-19 wave



Source: Own composition based on MSCI data, 2021

A phenomenon out of the ordinary was the behaviour of "retail" savers during this period of market turmoil, which is the leading topic of this paper. In most of the jurisdictions analysed, non-professional investors increased their trading activity – either in volume or in frequency – while many previously inactive started investing either by opening brokerage accounts or by buying packaged investment products, such as fund units.

The predominant trend was households' increasing exposure to listed equities. Securities exchanges across the EU recorded a much higher number of trades between February and April 2020, whereas the smaller volumes or values of these trades indicate the presence of "retail" orders. Given the uncertainty at the time and the economic outlook, the first section of this paper seeks to understand the determinants of the surge in retail trading and investing. Based on the available data, it seems that the health-related restrictions brought a wave of new, particularly younger, "retail" investors to capital markets, which prompts two essential questions for the development of the Capital Markets Union:

- how to ensure that these new investors remain invested, and
- how to stimulate other savers to follow suit.

The answers hinge on the determinants of the increased trading and investing activity of EU households. The purpose of this paper is, thus, to also understand the rationale behind savers' revived appetite for investing particularly in times of economic and financial uncertainty and turmoil. While research

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[3] See also Maarten Dossche, Georgi Krustev, Stylianos Zlatanos, 'COVID-19 and The Increase in Household Savings: An Update' (ecb.europa.eu) ECB Economic Bulletin Issue 5/2021, available at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2021/html/ecb.ebbox202105_04~d8787003f8.en.html.

[4] Badar Nadeem Ashraf, 'Stock Markets' Reaction to COVID-19: Cases or Fatalities?' (2020) 54 Research in International Business and Finance, available at: https://reader.elsevier.com/reader/sd/pii/S0275531920304141?token=608C279F431669F5C81A74C2E3425BAF2A2F1403041BDB747CD532F422E9A9187D89E96511BC72B32E696939B36D996B&originRegion=eu-west-1&originCreation=20211101173553.

literature has investigated extensively the response of retail investors to different events, there is always room for new analyses as "*investors who inhabit the real world and those who populate academic models are distant cousins*".[5] Traditionally, retail investors were deemed to be contrarian and exhibit a herding bias, but the behaviour over the course of 2020 was different to what would have been expected. As such, the BETTER FINANCE research team further investigated the triggers of the new retail trading surge and found interesting evidence and literature. Further, the research team documented how non-professional investors' participation in capital markets evolved throughout 2020 and the first half of 2021. We analyse available evidence on share ownership and investments in packaged products, such as funds or insurance-based investment products, in eleven jurisdictions in the EU.

Limiting human interaction prompted a fast digitalisation of services and relationships, which in turn prompted digital innovation. This led to the promotion of new financial services and business models in the EU, which either played a role in the higher participation rate of households in capital markets or which will be a disruptive force for the current landscape. Thus, the third section analyses the new trends in financial services. For instance, the possibility to hold online annual general meetings (AGMs) of shareholders, the pervasiveness of zero-commission brokerage platforms and neobrokers, or an increased popularity of automated investment platforms (robo-advisors) may become defining topics for the new retail trading and investment environment.

The last topic of relevance for retail investor protection concerns the challenges posed by the new market trends and business models that have become more popular throughout the last year and a half. We document both the advantages and risks that come along in this new retail trading environment in order to identify to which aspects regulation, supervision, and enforcement should pay particular attention in the years to come. The last section highlights several policy recommendations BETTER FINANCE puts forwards in light of the findings of this research.

Glossary of key concepts

Neobrokers
They represent the new generation of fully digital brokers aiming to facilitate the execution of low-cost stock market orders and trading services directly to individual investors.

DeFi
Decentralised finance, a market segment in capital markets that comprises those services and products incorporating or based on the distributed ledger technology and cryptography.

Investment recommendation
Information recommending or suggesting an investment strategy, explicitly or implicitly, concerning one or several financial instruments or the issuers, including any opinion as to the present or future value or price of such instruments, intended for distribution channels or for the public.[6]

Brokerage platform
A firm offering trading services to clients, usually online, through the means of a software by which orders are recorded and sent to be executed on market venues.

Social trading
A trend of non-professional investors by which financial and investing information is obtained online, from peers, and investment decisions are copied or replicated.

AGM
Annual General Meetings of shareholders or associates in a company or entity. In finance, it is generally used for shareholder meetings in listed companies.

Contrarian nature
Behavioural tendency of retail investors to act opposite of what the market does, i.e. hold on to "losers" and sell "winners".

Herding bias
A behavioural flaw in investment decision-making depicting the tendency of an individual to copy what the mass is doing.

Hindsight bias
The tendency of an individual to believe that he or she correctly predicted market developments and that those developments will occur again.

[5] B. M. Barber, T. Odean, 'The Behaviour of Individual Investors' in George M. Constantinides, M. Harris, Rene M. Stulz (eds), *Handbook of Economics and Finance* (2013) 2(B), 1533-1570, available at: https://faculty.haas.berkeley.edu/odean/papers%20current%20versions/behavior%20of%20individual%20investors.pdf.

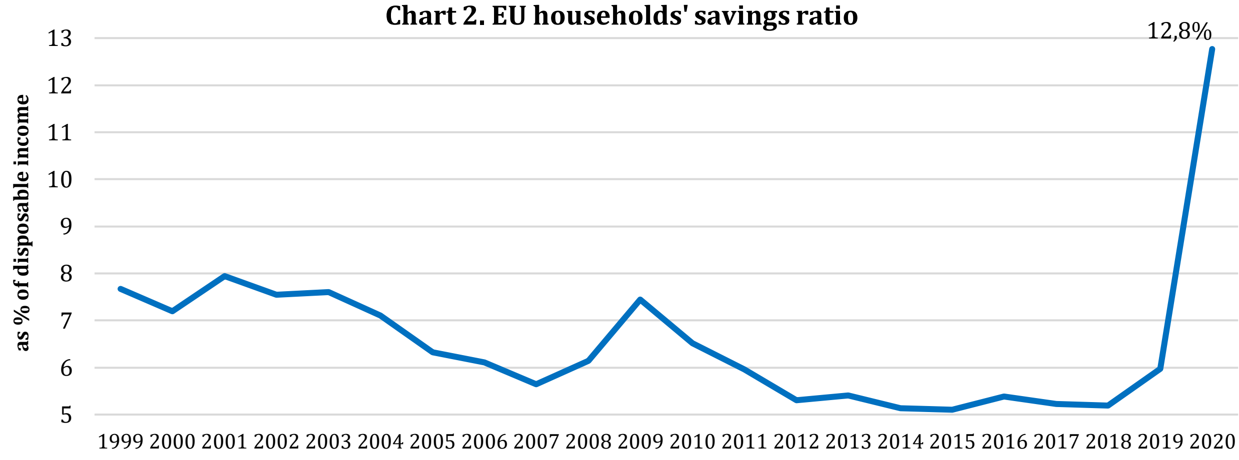
[6] Please see European Securities and Markets Authority, *ESMA's Statement on Investment Recommendations on Social Media* (28 October 2021) ESMA70-154-2780, available at: https://www.esma.europa.eu/sites/default/files/library/esma70-154-2780_esmas_statement_on_investment_recommendations_on_social_media.pdf.

DETERMINANTS OF INCREASED RETAIL TRADING

Household savings

Public health restrictions, lockdowns, and the limitation of consumption generated a spike in the saving rate of households worldwide. In the EU, consumers saved almost 13% of their disposable income[7] during 2020, which is more than twice compared to 2019 levels (5.97%), a historical record (over the last 21 years), and well above the average (6.6%).

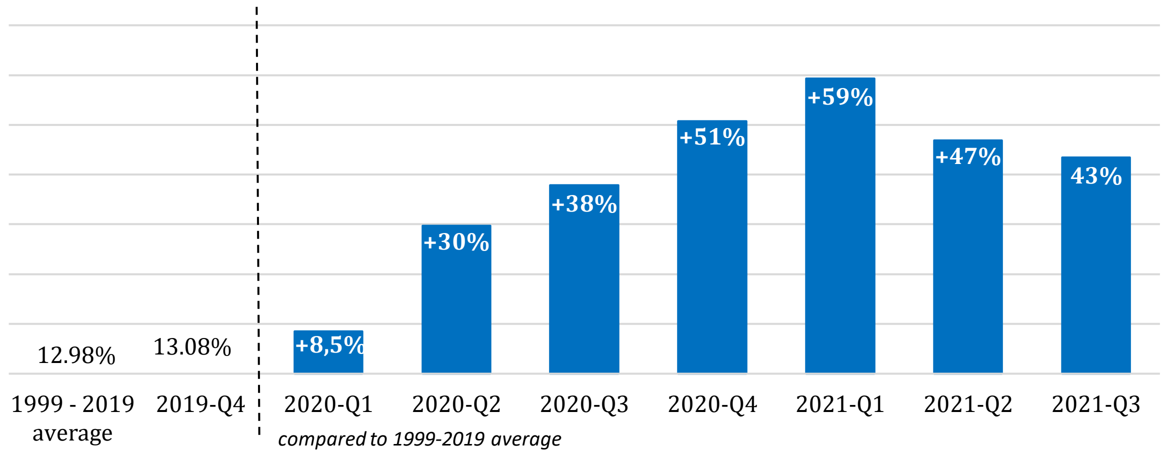
Chart 2. EU households' savings ratio



Source: Own composition based on OECD data

By the end of 2020, Eurozone households also saved up to 51% more compared to the last 20 years' average (1999 – 2019), reaching almost a fifth (19.71%) of their net disposable income. The rate continued to grow by March 2021, reaching a record 20.6%, meaning that every one in five euros earned by Eurozone households was set aside.

Chart 3. Eurozone househeold savings ratio (% of disposable income)



Source: BETTER FINANCE own composition based on ECB data

Therefore, the foundational element for increased retail investments is the higher value of investable capital. Nevertheless, issuers in the EU have been traditionally characterised by an over-reliance on the

[7] According to Eurostat, the "***Household disposable income*** *is the total amount of money households have available for spending and saving after subtracting income taxes and pension contributions*" – see Eurostat Glossary, *Households Disposable Income*, available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Households_disposable_income.

banking sector, which partially underpins the rationale for the Capital Markets Union (CMU) project.[8] However, a trend of slight divestments from banking products towards other packaged products, such as investment funds, insurance-based investment products and pensions was already observed at EU level.

Table 4. Financial balance sheets of EU and Eurozone households

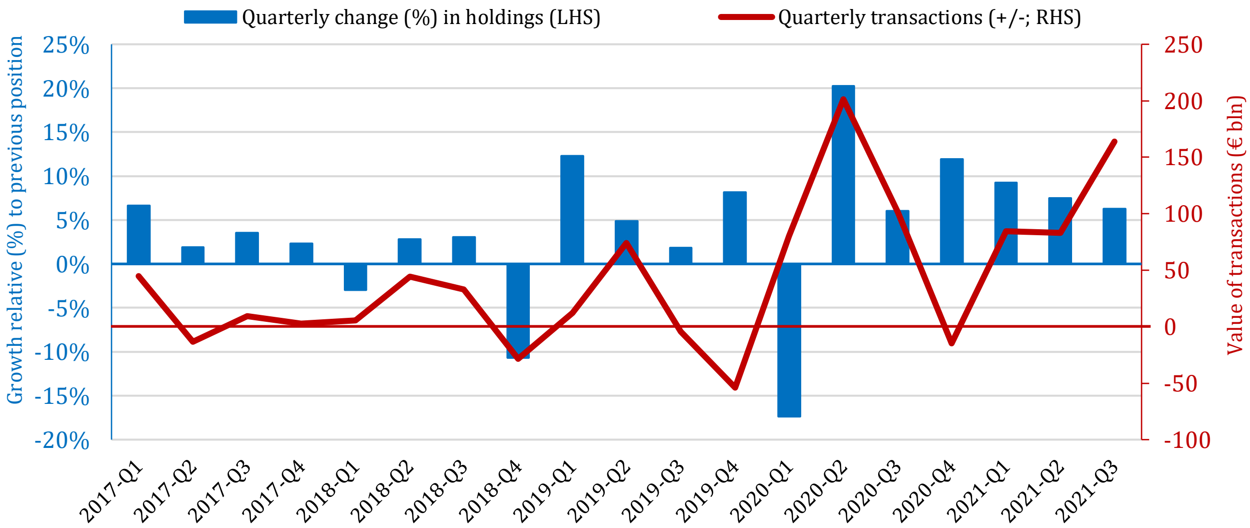
EU27	2015		2020		
	in € trln	in % of total	in € trln		in %
Currency & deposits	7.93	31.1%	10.18	↑	32.2%
Equities	5.44	21.4%	6.47	↓	20%
Investment funds	2.27	8.9%	2.84	↑	9.0%
Life insurances	4.28	16.8%	5.42	↑	17.1%
Eurozone	**2015**		**2020**		
Currency & deposits	7.22	32.2%	9.17	↑	33.6%
Equities	4.50	20.1%	5.08	↓	18.6%
Investment funds	2.06	9.2%	2.52	↑	9.3%
Life insurances	3.91	17.5%	4.95	↑	18.1%

Source: Own composition based on Eurostat data, 2021

Both EU27 and Eurozone households shifted their capital from equities to packaged investment products, currencies and deposits, and pensions in the 5 years preceding the pandemic. The increase in absolute terms (€ trillions) in the value of equity holdings of European households is due to the strong capital market performances (stock indices) in the same period, but the value (relative to the total financial savings) has, indeed, decreased (by 0.4% and 0.6%).

Nevertheless, the quarterly data from the European Central Bank on households' holdings and transactions (*net acquisition of*) provides more clarity on the topic. The chart below (left-hand side, LHS, bars) shows that the value of EU27 households' equity holdings have dropped during the first quarter of 2020 by 17.4%, which is due to the negative performance of equity indices worldwide. However, we can also observe that EU27 households invested €80.4 billion in listed shares during the same period (right-hand side, RHS, line).

Chart 5. EU27 households' listed equity holdings vs transactions (quarterly)

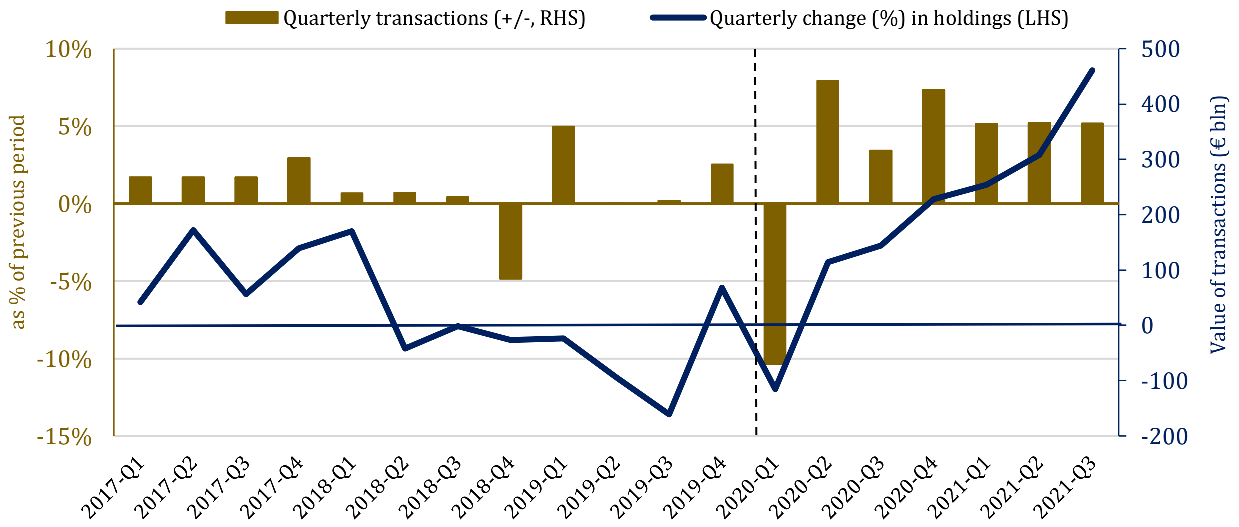


Source: Own composition based on ECB SDW data, 2022

[8] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A Capital Markets Union for People and Businesses - New Action Plan (24 September 2020) COM/2020/590 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2020:590:FIN.

In fact, by the end of 2020, private investors across the EU allocated €368.7 billion to listed equities altogether, which partly explains the increase in their closing positions (holdings at the end of each quarter) during 2020 and 2021. The same can be observed with investment fund shares as well.

Chart 6. EU27 households' fund holdings vs transactions (quarterly)



Source: Own composition based on ECB SDW data, 2021

Fund flows from EU households already were positive after five quarters of outflows (disinvestments) by the end of 2019. Although the outburst of the pandemic triggered disinvestments on the part of retail investors, as well as a decrease in their holdings, by the end of last year the trend has been reversed significantly (€369.6 of investments). Summing up the available data (end of June 2021), households have invested half a trillion euros in listed equities over the past 6 quarters and almost a trillion (€931.5) in investment fund shares.

Some authors also noted that the weekly trading intensity of investors[9] increased by 13.9% between February and March 2020, but also the number of new account openings (previously inactive savers) has grown considerably[10] in several jurisdictions, such as Spain,[11] Belgium,[12] Germany,[13] Finland and France.

Behavioural biases, social media and financial innovation

Available data shows that retail investors started investing or traded more frequently during the pandemic. The outlying question is what determined this increase in capital market participation of individual investors, and why most notably an increased exposure to listed equities?

[9] On a discount brokerage platform operating under a UK licence.

[10] Regina Ortmann, Matthias Pelster, Sascha Tobias Wengerek, 'COVID-19 and Investor Behaviour' (2020) 37 Finance Research Letters, available at: https://reader.elsevier.com/reader/sd/pii/S1544612320307959?token=13DBD7A5B28AF407FE9AE10CAF5CE7FC43CDFB97C1DE1EB4EA0F1E619A68BC49AC82AC107F3A1C1148080E823EEBD246&originRegion=eu-west-1&originCreation=20211101161209.

[11] Wouter Vervenne, 'Belgen Kopen voor Recordbedrag Beursgenoteerde Aandelen' (2 July 2020, detijd.be) accessed 3 November 2021, available at: https://www.tijd.be/markten-live/nieuws/aandelen-brussel/belgen-kopen-voor-recordbedrag-beursgenoteerde-aandelen/10236652.html.

[12] Laura de la Quintana, 'Los 'Robinhoods' de Brokeraje a Coste Cero Ya Están en España' (17 October 2020, eleconomista.es) accessed 3 November 2021, available at: https://www.eleconomista.es/mercados-cotizaciones/noticias/10831678/10/20/Los-Robinhoods-de-brokeraje-a-coste-cero-ya-estan-en-Espana.html.

[13] Danilo Masoni, 'Retail Trading Boom Sparks 500%-plus Rally in Small German Brokers' (18 February 2021, reuters.com) accessed 5 November 2021, available at: https://www.reuters.com/article/us-retail-trading-germany-idUSKBN2AI2AN.

The question is particularly relevant given that it took place during a period of market turmoil and economic uncertainty. A quick answer would be that retail investors are contrarian, meaning that they behave differently than the rest of the market, i.e. institutional and professional investors.[14] Academic research has abundantly documented non-professional investors' *contrarian* investing behaviour.[15] Indeed, researchers demonstrated that illiquidity curves during market turmoil (2008 financial crisis, 2020 COVID-induced corrections) have been flattened by retail trades,[16] confirming retail investors' behaviour compared to the mostly "momentum" behaviour of "institutional" investors.

During periods of market distress, institutional investors are looking to sell their assets (attempting to reduce losses), which creates a lack of liquidity on the buy side, also called upward illiquidity curve. Thus, when retail investors step in and start buying massively, the illiquidity curve is said to be "flattened" and bid-ask spreads are reduced.

In short, neoliberal theories define a rational investor as one that bases its investment decisions on fundamental and market information, which should be more and more sophisticated in order to optimally price assets.[17] Then, based on the investment strategy or style, investors will buy and hold winning assets (such as a share in a company) and sell them when their market valuation starts to drop,[18] again based on an accumulation of information. Where retail investors do the opposite,[19] as their judgment is guided by behavioural biases (such as emotions or peers' example),[20] academic literature refers to this behaviour as "*irrational*".

For instance, "retail" investors exhibit a herd behaviour, which is the tendency to follow their peers' example.[21] In a study analysing why retail investors traded equities during the pandemic, researchers found that the strongest behavioural bias exhibited (out of a taxonomy of eight) was *herding bias*, with

[14] In this sense, see R. Kaniel, S. Liu, G. Saar, S. Tillman, 'Individual Investor Trading and Return Patterns Around Earnings Announcements' (2012) 67(2) Journal of Finance.

[15] B. M. Barber, T. Odean, 'The Behaviour of Individual Investors' (2013) Handbook of Economics and Finance, Chapter 22, 1535-1570, 1564, *apud* R. Kaniel, G. Saar, S. Titman, 'Individual Investor Trading and Stock Returns' (2008) 63 Journal of Finance, 273–310; Daniel Haguet, *Les Déterminants de la Décision d'Achat des Investisseurs Individuels: l'Exemple Français* (2016) Université Nice Sophia Antipolis, Gestion et Management, NNT: 2016NICE0003, available at: https://tel.archives-ouvertes.fr/tel-02426198/document.

[16] G. Ozik, R. Sadha, S. Shen, 'Flattening the Illiquidity Curve: Retail Trading During the COVID-19 Lockdown' (2020) Journal of Financial and Qualitative Analysis, Cambridge University Press, p.6, available at: https://www.cambridge.org/core/journals/journal-of-financial-and-quantitative-analysis/article/flattening-the-illiquidity-curve-retail-trading-during-the-covid19-lockdown/7D5EBA559DC12E2BD65D53E9BAE924A1;

[17] For the fundamentals of efficient markets theory and of the capital asset pricing model (on which the "rational" behaviour is modelled), see Robert. A. Schwartz, Reto Francioni, *Equity Markets in Action: The Fundamentals of Liquidity, Market Structure & Trading* (2004) Wiley Trading, p. 40 *et seq.*

[18] See M. Grindblatt, M. Kleoharju, 'The Investment Behaviour and Performance of Various Investor Types: A Study of Finland's Unique Data Set' (2000) 55 Journal of Financial Economics, 43-67.

[19] see Hersh Shefrin, Meir Statman, 'The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence' (1985) XL(3) Journal of Finance, available at: https://people.bath.ac.uk/mnsrf/Teaching%202011/Shefrin-Statman-85.pdf.

[20] See Andrijana Musura Gabor, Lidija Gamulin, 'Breaking the Myth About Rational Investor: Investors' Susceptibility to Heuristical and Biased Reasoning' (2016) 23(1-2) Review of Psychology, 15-25, available at: https://www.researchgate.net/publication/308666739_Breaking_the_myth_about_rational_investor_Investors%27_susceptibility_to_heuristical_and_biased_reasoning.

[21] See S. Talmar, M. Talwar, V. Tarjanne, A. Dhir, 'Why Retail Investors Traded Equity During the Pandemic? An Application of Neural Networks to Examine Behavioural Biases' (2021) 38(11) Wiley Online Library, 2142-2163, 2149, available at: https://onlinelibrary.wiley.com/doi/full/10.1002/mar.21550.

a 100% relevance, followed by *hindsight bias*[22] (87% relevance) and *over-confidence and self-attribution* (62% relevance).[23]

Nevertheless, specialised literature has been recently focusing on re-analysing the determinants of the increased trading intensity of retail investors as it did, for good reasons, raise significant question marks. This is because, besides the contrarian nature and herding bias, empirical observations showed that retail investors react adversely in face of distressful events, which tend to increase their risk aversion and reduce their trading intensity.[24] Therefore, given that the disruptions caused by the health pandemic have been much more pervasive, in fact unprecedented, theories elaborated so far would have urged us to believe that investors would adopt a much more defensive approach.

In the European Securities and Markets Authority's (ESMA) initial view, four factors may have contributed to this behaviour:

- "*households seeking a destination for their increased levels of savings because of constrained consumption and precautionary savings;*
- *increased time spent online during lockdowns, with ready access to online trading and investment tools;*
- *high periods of volatility encouraging speculative activity;*
- *long-term investors seeking to take advantage of more attractive valuations following the initial sharp downward adjustment to asset prices*".[25]

Other authors point to the effect of news being spread much faster and wider through social networks. Research on the US market showed that the liquidity demand of retail investors was media-driven, thus attenuating liquidity shortages and reducing bid-ask spreads.[26] Indeed, earlier research on the role of social media over the returns of a US index shows that "*social networks influence investors' decisions, and that this influence leads to a variation of market risk*", highlighting that the effects are more pronounced for non-technical investors.[27]

In addition, social media may have spiked the participation of young investors. Studies show that millennials are much more connected to one another (thus, multiplying herding effects), which comes on the background of growing consumer decision-making based on online reviews.[28] In other words,

[22] Hindsight bias means the belief of investors that they had been able to predict previous market trends (increases, decreases etc) and they should follow "gut" feeling as the trend observed will happen again.
[23] Over-confidence and self-attribution bias describes the belief of investors that "their actions, knowledge, opinions, and skills allow them to beat the market" – M. Talwar, V. Tarjanne, A. Dhir, 'Why Retail Investors Traded Equity During the Pandemic? An Application of Neural Networks to Examine Behavioural Biases' (2021) 38(11) Wiley Online Library, 2142-2163, 2149, available at:
https://onlinelibrary.wiley.com/doi/full/10.1002/mar.21550.
[24] M. Glaser, M. Weber, 'September 11 and Stock Return Expectations of Individual Investors' (2005) 9(2) Review of Finance, 243-279, available at: https://academic.oup.com/rof/article-abstract/9/2/243/1611892?redirectedFrom=fulltext.
[25] ESMA TRV no. 1 2021 p. 34 available at: https://www.esma.europa.eu/sites/default/files/library/esma50-165-1524_trv_1_2021.pdf.
[26] G. Ozik, R. Sadha, S. Shen, 'Flattening the Illiquidity Curve: Retail Trading During the COVID-19 Lockdown' (2020) Journal of Financial and Qualitative Analysis, Cambridge University Press, p.6, available at: https://www.cambridge.org/core/journals/journal-of-financial-and-quantitative-analysis/article/flattening-the-illiquidity-curve-retail-trading-during-the-covid19-lockdown/7D5EBA559DC12E2BD65D53E9BAE924A1; see also G. W. Eaton, T. Clifton Green, B. S. Roseman, Y. Wu, 'Retail Trader Sophistication and Stock Market Quality: Evidence from Brokerage Outages' (2021) Oklahoma State University, Working Paper, available at: https://ssrn.com/abstract=3776874.
[27] Juan Piñero-Chousa, Marcos Vizcaino Gonzales, Ada Maria Perez-Pico, 'Influence of Social Media over the Stock Market' (2017) 34(1) Psychology and Marketing, 101-108, 106, available at: https://onlinelibrary.wiley.com/doi/abs/10.1002/mar.20976.
[28] Randy Priem, 'An Exploratory Study on The Impact of the COVID-19 Confinement on the Financial Behaviour of Individual Investors' (2021) 16(3) Economics, Management, and Financial Markets, p. 13, available at: https://addletonacademicpublishers.com/contents-emfm/2216-volume-16-3-2021/4053-an-exploratory-study-on-the-impact-of-the-covid-19-confinement-on-the-financial-behavior-of-individual-investors.

consumers are more and more inclined to rely on peers' experience and guidance, which seems to be the case also for investments.

A study found that, at the beginning of the pandemic, many retail "*investors turned to social media to search for and to discuss financial information*", which did have an impact on global stock market returns.[29] Empirical analyses showed a correlation between financial tweets and Google searches of COVID-related keywords. The first demonstrated that fear and uncertainty about the spread of the virus, as well as hopes about vaccines and treatment, spread rapidly through social media and were highly reflected in the daily returns of US indices.[30]

The second demonstrated a positive correlation between Google search queries and volume and the stock indices performances during the pandemic in 64 jurisdictions.[31] The latter finding is consistent with findings that the evolution of equity indices worldwide were not influenced at all by the pre-pandemic state of the economy and of the market itself, rather much more by news about public health measures and macroeconomic intervention policies taken by public authorities.[32]

The power of social networks and forums, where peers share views, has also been demonstrated on the occasion of the GameStop case at the beginning of 2021.[33] This episode was, in our view, a clear footprint of the "social trading" trend, which is becoming more and more significant. An ESMA report on *Trends, Risks, and Vulnerabilities* provides a large amount of useful insight on the additional determinants of the new retail trading environment, and what characterises it, including the "social trading" phenomenon.[34]

Coupled with ESMA findings, our research suggests that 2020 and 2021 saw the rise of three retail investor trends and one industry trend that may define the decade to come: retail investor activism, social trading, DeFi, as well as large investments into financial innovation, data, and artificial intelligence.

Retail investor activism. Early signs of increased interest and engagement of retail investors were observed as part of the sustainable finance trend, where minority and individual shareholders manifested (and continue to) their intent to actively participate in the decision-making processes of listed companies for environmental, social, or governance purposes.[35] This seems to have reached a new phase with the GameStop and AMC shares where retail investors motivated one another – through forums – to buy in an attempt to disrupt shorting strategies of institutional investors.[36] Most opinions expressed on this topic point towards investor activism, which means that citizens' or households'

[29] Mandy Chiah, Angel Zhong, 'Trading From Home: The Impact of COVID-19 on Trading Volume Around the World' (2020) 37 Finance Research Letters, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3700572.

[30] Mohammad Al Guindy, 'Fear and Hope in Financial Social Networks: Evidence from COVID-19' (2021) Financial Research Letters, p. 8, available at: https://www.sciencedirect.com/science/article/abs/pii/S1544612321003135.

[31] Chaiyuth Padungsaksawasdi, Sirimon Treepongkaruna, 'Chasing for Information During the COVID-19 Panic: The Role of Google Search on Global Stock Market' (2021) Cogent Economics & Finance, available at: https://www.tandfonline.com/loi/oaef20.

[32] See Gunther Capelle-Blancard, Adrien Desroziers, 'The Stock Market is Not The Economy? Insights from the COVID-19 Crisis' (2020) CEPR Covid Economics, p. 28, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3638208.

[33] See BETTER FINANCE's Press Release "GameStop Case Highlights Discrimination of "Retail" Investors in Stock Markets", available at: https://betterfinance.eu/publication/gamestop-case-highlights-discrimination-of-retail-investors-in-stock-markets/.

[34] European Securities and Markets Authority, *TRV: ESMA Report on Trends, Risks, and Vulnerabilities* (1 September 2021) No.2/2021, ESMA-50-165-1842, see sections about *Consumers* and *Financial Innovation*, available at: https://www.esma.europa.eu/sites/default/files/library/esma50-165-1842_trv2-2021.pdf.

[35] See 2 Degrees Investing Initiative, 'Retail Clients Want to Vote for Paris: An Analysis of Retail Clients' Preferences Regarding the Use of Shareholder Rights on Climate Resolutions' (March 2020), available at: https://2degrees-investing.org/wp-content/uploads/2020/03/Retail-Clients-Want-to-Vote-for-Paris-1.pdf.

[36] See Katja Langenbucher, 'Kommunikation als Governance-Instrument in der Börsennotierten Aktiengesellschaft' (2021) 185, 414-454, 440 et seq, available at: https://online.ruw.de/suche/zhr/Kommunik-als-Gover-Instr-in-der-boersennoti-Aktien-0cffb4311aca2f2c61017f234dcb3751.

financial decisions were motivated by reasons other than financial returns.[37] However, global health restrictions have hampered shareholder engagement in corporate governance, whereas the emergency laws adopted to enable virtual annual general shareholders' meetings (AGMs) have not improved at all the conditions for minority, non-professional investors. Recent reports from BETTER FINANCE on virtual AGMs and barriers to shareholder engagement highlighted:

- on the one hand, which found certain weaknesses of virtual-only AGMs and proposed hybrid models that would combine the benefits of both models (on-site and virtual only);[38]
- on the other hand, "*in the vast majority of cases, shareholders were not able to fully or partially exercise their fundamental rights at general meetings abroad. In addition, there were numerous instances of high costs being charged to them, in some cases up to €250 per general meeting*".[39]

Social trading. Consumers increasingly rely on online peer reviews of products and services. At the same time, social networks create spaces where peers share or collect information, deepening the interconnectedness that defines the younger generation. Together with the *herding bias*, a phenomenon (albeit not new)[40] took off by which non-professional investors seek investing information (recommendations, advice, or models) from peers via social network platforms. The trend started-off as a business model to attract more retail clients on online trading platforms, whereby users could also copy one trade or multiple trades of other users.[41]

In time, social trading evolved into a fully-fledged movement with various communities and forums where non-professional investors get insights, share experiences, obtain financial information or explanations about investments. Recent statistics show that certain hashtags (keywords by which users find content, such as videos, profiles, photos etc) gathered enormous attention on social networks such as "#FinTok" (on TikTok) with 500 million views or "#investing" (TikTok and Instagram) with 3.82 billion views together.[42]

Trading platforms also launched their own forums where traders - ranked by popularity, profitability, or other criteria – share opinions with users.[43] In addition, brokerage platforms have also launched

[37] Opinion which is shared also in the ESMA TRV report, see European Securities and Markets Authority, *TRV: ESMA Report on Trends, Risks, and Vulnerabilities* (1 September 2021) No.2/2021, ESMA-50-165-1842, see sections about *Consumers* and *Financial Innovation*, available at: https://www.esma.europa.eu/sites/default/files/library/esma50-165-1842_trv2-2021.pdf
[38] See BETTER FINANCE, Deutsche Schutzvereinigung fur Wertpapierbesitz, *The Future of General Shareholder Meetings: BETTER FINANCE-DSW Study on the 2020 virtual shareholder meetings in the EU* (2020), available at: https://betterfinance.eu/wp-content/uploads/Virtual-AGMs-in-the-EU-FINAL-2.pdf.
[39] See BETTER FINANCE, Deutsche Schutzvereinigung für Wertpapierbesitz, *Barriers to Shareholder Engagement 2.0: SRDII Implementation Study* (January 2022), p. 5, available at: https://betterfinance.eu/wp-content/uploads/Barriers-to-Shareholder-Engagement-2.0-SRD2-Implementation-Study-20220106.pdf.
[40] For instance, in 2015 a report identified social trading as a "key development democratising wealth management", see World Economic Forum, The Future of Financial Services: How Disruptive Innovations Are Reshaping the Way Financial Services Are Structured, Provisioned and Consumed (2015), p. 127, available at: https://www3.weforum.org/docs/WEF_The_future__of_financial_services.pdf.
[41] See Yang-Yu Liu, Jose C. Nacher, Tomoshiro Ochiai, 'Prospect Theory for Online Financial Trading' (2014) 9(10) PLoS One, available at: https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0109458; see also Jose Apesteguia, Jörg Oechssler , Simon Weidenholzer, 'Copy Trading' (2020) 66(12) Management Science, available at: https://pubsonline.informs.org/doi/10.1287/mnsc.2019.3508.
[42] Vanessa Pombo Nartallo, 'Finfluencers: Financial Education and Regulatory Surveillance' (8 October 2021, bbva.com) accessed 5 November, available at: https://www.bbva.com/en/finfluencers-financial-education-and-regulator-surveillance/.
[43] See also Ines Freré, 'The Rise of Social Trading: How The Internet is Changing Investing' (7 October 2021, Yahoo! Finance) accessed 5 November 2021, available at: https://finance.yahoo.com/news/the-rise-of-social-trading-how-the-internet-is-changing-investing-153643100.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAD4_B0QuFeFqQ8WnyAlFjDNHwZRc62YG6aVRrFaC02GlaOaGhW2muaJXSHB5ZambjxLSX7_Pdsc0T8SUMkPSgiFRCK4h035JltpuCBSqpvbSDv52_EbTOdQXas1_uv3vR2_j6-NbIz3KYcat6JSG-Yu1F1H6_qKLlOdUDbRDBMBM.

"gamification" formats, by which users are stimulated through competition or game-like features to invest.[44]

In light of these developments, many regulatory authorities reacted promptly to educate investors and warn those who publicise such content online about its risks and pitfalls. To mention a few, the Spanish securities markets authority (CNMV), the UK FCA, the Australian ASIC, New Zealand FMA,[45] and the EU's European Securities Markets Authority (ESMA) issued supervisory statements in this sense. For instance, ESMA reminded all those who participate in these online discussions of the regulatory requirements under the Market Abuse Regulation (MAR),[46] and of the sanctions (financial and criminal) for breaching these obligations.[47]

Indeed, there is a fine line between sharing an opinion or experience about investing (which is part of the freedom of expression) and making an investment recommendation (Art. 3(35) MAR) or giving unauthorised investment advice (Art. 4(4) MiFID II[48]). However, supervisory authorities are very much right to raise these concerns as, in today's environment, many retail investors seem to be easily influenced by others or take opinions as advice, setting an example for others to copycat. Worse, given the increasing fraud attempts, many users may fall victims to scammers.

BETTER FINANCE also reminds its readers that financial and investing advice must come from authorised (preferably independent) professionals. In the EU, national competent authorities of each Member State hold public registers with authorised professionals, and the European Supervisory Authorities also make available and freely accessible registers about regulated financial institutions and undertakings.

Investment products are unlike other consumer goods, they are neither searchable nor experience goods,[49] and thus investors should seek financial information only from official, trustworthy sources, such as financial education campaigns run by public authorities.

DeFi. The acronym stands for *decentralised finance* and it took off with the growth of distributed ledger technologies and cryptography. Although the concepts appeared much earlier than their uptake,[50] their popularity stemmed from the challenge these models posed to traditional financial institutions and

[44] For the US Market, see Rick Fleming's Speech on the occasion of the *SEC Speaks,* 'Investor Protection in the Age of Gamification: Game Over for Regulation Best Interest?' (13 October 2021), available at: https://www.sec.gov/news/speech/fleming-sec-speaks-101321.

[45] Ibid, the authors makes a recollection of the recent public supervisory statements in a few reference jurisdictions – see Vanessa Pombo Nartallo, 'Finfluencers: Financial Education and Regulatory Surveillance' (8 October 2021, bbva.com) accessed 5 November, available at: https://www.bbva.com/en/finfluencers-financial-education-and-regulator-surveillance/.

[46] Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, ELI: http://data.europa.eu/eli/reg/2014/596/oj.

[47] European Securities and Markets Authority, 'ESMA Addresses Investment Recommendations Made on Social Media Platforms' (28 October 2021) ESMA Press Release, available at: https://www.esma.europa.eu/press-news/esma-news/esma-addresses-investment-recommendations-made-social-media-platforms.

[48] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, ELI: http://data.europa.eu/eli/dir/2014/65/oj.

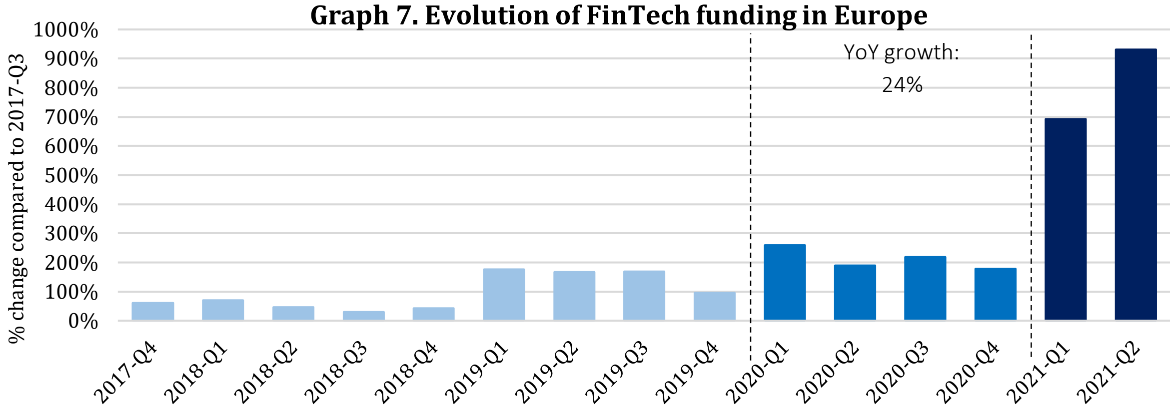
[49] A searchable good is one whose characteristics, nature, or features can be evaluated (prospected, browsed) before purchasing them, whereas an experience good is one which can be evaluated after purchase; in both cases, ultimately, the consumer can have a good understanding of their characteristics, functioning, and value, without necessarily requiring specialised knowledge – see Philippe Jourdan, Search Or Experience Products: an Empirical Investigation of Services, Durable and Non-Durable Goods' (2001) in Paula M. Tidwell, Thomas E. Muller, (eds) *AP - Asia Pacific Advances in Consumer Research* (2001) 4 Association for Consumer Research, 167-17;. at the other side of the spectrum lie *credence* goods, those which cannot be adequately evaluated before, nor after purchase – in this sense, see BETTER FINANCE, *Collective Redress Booklet* (2019), Working Paper 4, 31-35, available at: https://betterfinance.eu/wp-content/uploads/Collective-Redress-Booklet-BETTER-FINANCE.pdf.

[50] For instance, the blockchain has been around since 2009, when the Bitcoin white paper was published.

mechanisms, which are said to be "centralised". In short, the distributed ledger technology challenges "centralised finance" as it no longer requires trusted actors (such as banks) to operate financial systems, nor public authorities to supervise them, and all records are publicly available. According to ESMA, while DeFi (as a market segment) is "*not yet large enough to be considered a risk to financial stability*",[51] it will remain on the radar of regulatory and supervisory authorities. While it is difficult to distinguish how many retail savers used crypto-assets and DLTs for speculative reasons or out of conviction, the result is that many started to self-educate about and grew an appetite for investing.

Financial innovation. ESMA highlighted that the surge in retail trading during the pandemic has been influenced also by innovation in financial services, such as "*new online and mobile trading platforms offer convenient, easy-to-use investment services*".[52] In the first half of 2021, FinTech funding attracted 46% more funding for financial innovation than in the whole of 2020 together.

Graph 7. Evolution of FinTech funding in Europe



Source: Own elaboration based on CB Insights data (2021)[53]

In terms of hubs for FinTech growth in Europe, while the UK and Germany have traditionally lead the development trend, the second quarter of 2021 saw significant venture-capital funding in a number of jurisdictions (Belgium, Romania, Bulgaria, Greece), which will spark competition on the EU market. Definitely, the rise of *neobrokers* has also contributed to increasing retail investor participation in capital markets, particularly among millennials. The availability of these platforms through mobile and user-friendly apps, just like with robo-advisors, make them attractive for both the younger generation and for experienced investors, especially since most started a hybrid business model: combining automated investment advice and securities trading for "retail" clients as well as savings plans for low (monthly) amounts.

Summing the results of our research, we believe that the surge in retail trading and investments that started at the beginning of 2020 can be explained in the following sequence:

- the triggers were the contrarian nature of retail investors, *hindsight bias* and *over-confidence* in financial decision-making;
- momentum was kept through the increasing use of social media to disseminate financial information and the rise of social trading, which underlines the *herding bias*;

[51] European Securities and Markets Authority, *TRV: ESMA Report on Trends, Risks, and Vulnerabilities* (1 September 2021) No.2/2021, ESMA-50-165-1842, p. 57, available at: https://www.esma.europa.eu/sites/default/files/library/esma50-165-1842_trv2-2021.pdf.

[52] European Securities and Markets Authority, *TRV: ESMA Report on Trends, Risks, and Vulnerabilities* (1 September 2021) No.2/2021, ESMA-50-165-1842, p. 31, available at: https://www.esma.europa.eu/sites/default/files/library/esma50-165-1842_trv2-2021.pdf.

[53] CB Insights, *FinTech Funding Trends in Europe Q2-2021* (2021), p. 10, available at: https://www.cbinsights.com/reports/CB-Insights_Fintech-Funding-Trends-Europe-Q2-2021.pdf.

- financial innovation brought new business models, such as *neobrokers*, which made trading and investing more easily accessible, consumer-friendly, and attractive.

RETAIL INVESTING SURGE: ANALYSIS BY JURISDICTION

Based on BETTER FINANCE's research on eleven EU Member States[54], the most notable increase in retail investments is the acquisition of listed shares, which was observed throughout these jurisdictions, albeit at different levels. BETTER FINANCE aimed to aggregate all available data quantifying the number of newcomers to EU capital markets by jurisdiction. Oher statistical data, most notably on stock market trading (increase in the volume, number, frequency, or value of trades, as well as the market capitalisation of domestic listed companies), are also significantly useful and representative of a stronger presence of "retail" investors in EU capital markets.

This increase gives momentum for the EU equity investing culture, but also for shareholder activism in EU listed companies. At the same time, it opens the appetite for investing of many previously inactive EU savers, which represents and will represent an important stimulus for the EU economy and for the post-COVID recovery.

Jurisdiction	Period of reference	# new investors	type
Austria	*no data on the number of new investors*		
Belgium	2019Q4 - 2020Q3	~44,000	BEL20 equity investors
Denmark	*no data on the number of new investors*		
Finland	2019Q4 - 2020Q3 2019Q4 - 2022Q1	82,766 140,988	retail investors (gen.) shareholders
France	03-04/2020	150,000	CAC40 equity investors
Germany	2019Q4 - 2021Q4 2019Q4 - 2021Q4 2019Q4 - 2021Q4	~2,300,000 ~400,000 ~500,000	equity-like instruments (gen.) investment funds & ETFs only shareholders only
Italy	02-03/2020	~100,000	retail investors (gen.)
Netherlands	2019Q4 - 2021Q4	~180,000	retail investors (gen.)
Poland	2019Q4 - 2020Q4	144,000	retail investors (gen.)
Portugal	2019Q4 - 2021Q4 2019Q4 - 2021Q4	165,469 87,440	domestic funds investors* foreign UCIs investors
Romania	2019Q4 - 2022Q1	112,971	fund investors
Spain	*no data on the number of new investors*		
Sweden	2019Q4 - 2021Q4	113,670	shareholders only

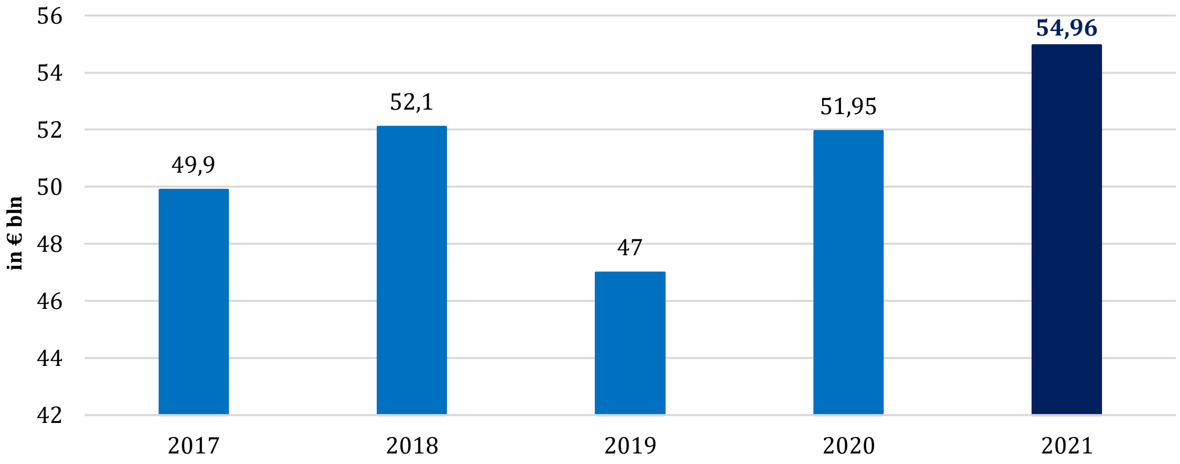
Source: BETTER FINANCE own composition based on data from tables/charts/figures 8-60 below

Austria

The private, domestic investor base in Austrian listed companies grew significantly in 2020, according to Wiener Börse. Although foreign institutional investors (such as investment funds) hold two thirds of the market capitalisation of listed equities on the Vienna exchange, it was reported that the exposure of "retail" investors reached a 20-year record in 2020 at €9.6 billion (€2.4 billion more compared to 2019), as well as in investment funds.[55]

[54] Austria, Belgium, Denmark, France, Germany, Italy, the Netherlands, Portugal, Romania, Spain, Sweden.
[55] Wiener Börse News, *Anhaltend Hohes Interesse von Internationalen Fonds an Rot-Weiß-Roten Aktien (Streubesitz-Studie)* (19 April 2021) Pressemitleitung, available at: https://www.wienerborse.at/news/wiener-boerse-news/studie-interesse-internationaler-fonds-an-oesterreichischen-aktien/.

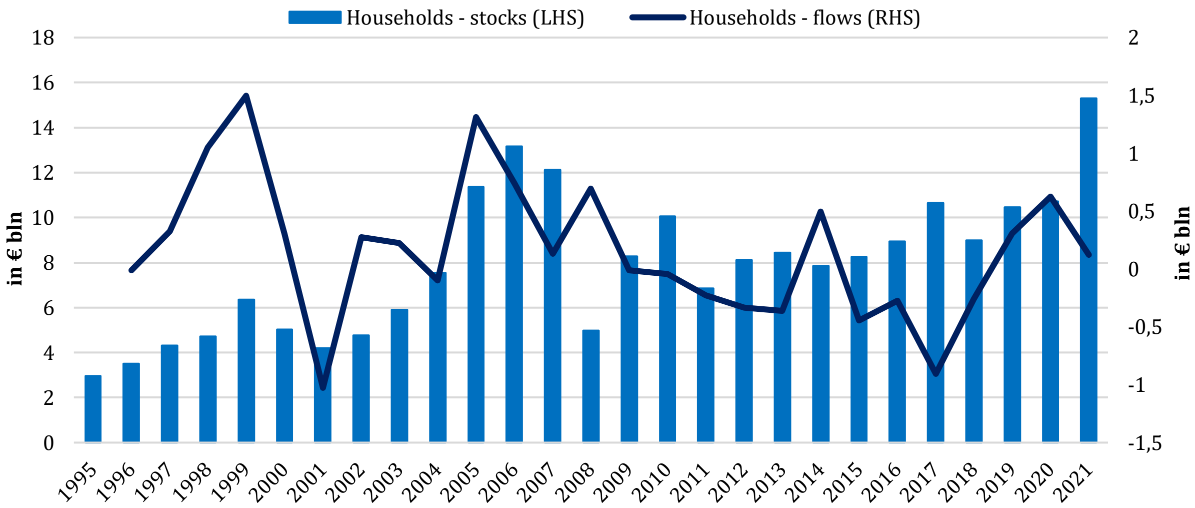
Chart 8. Equity turnover on the Vienna stock exchange (Q1-3)



Source: Own elaboration based on Wiener Borse data, 2021[56]

The increases in the equity turnover rates in the first three quarters of 2020 and 2021 have been significant compared to previous years: 10.5% in 2020 and 17% by the October, 2021. At the same time, Austrian individual investors also grew their exposure to equities and bonds through investment funds. Data from the National Bank of Austria on the exposure of households to equities of Austrian listed companies shows significant increases in the net flows during 2020 and 2021 (compared to 2019), as well as in the total exposure (stocks). The total value of listed equities on the financial balance sheets of individual investors in Austria reached the highest value since 2007 (€10.72 billion) in 2020, as well the highest net flows to these securities (€626 million in 2020, which is twice compared to the net flows of 2019.

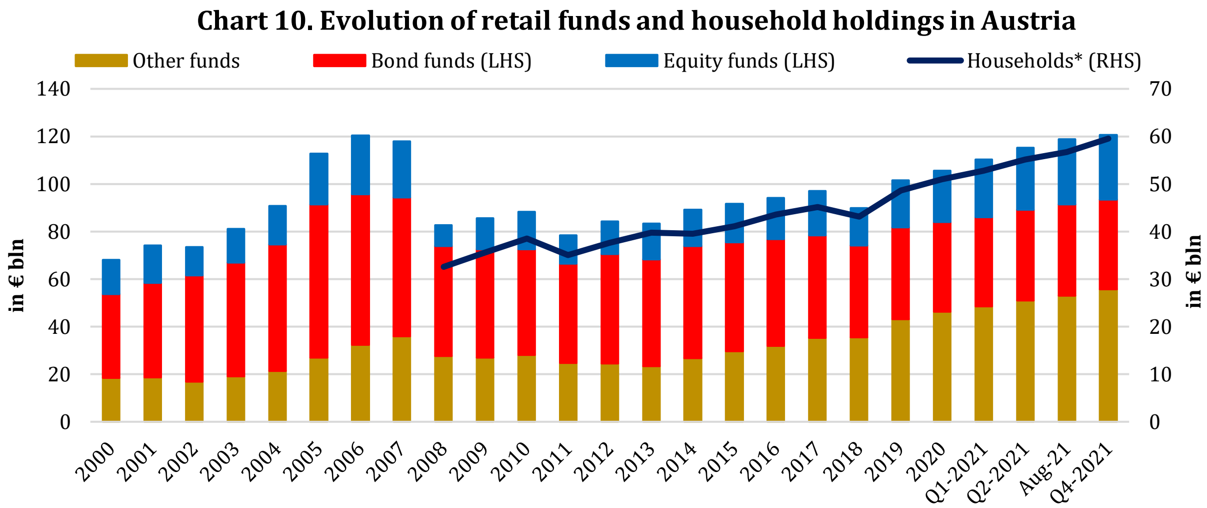
Chart 9. Evolution of AT households' flows and exposure to AT listed equities



Source: Own elaboration based on data from the OeNB, 2022

In terms of investment fund units, data from the National Bank of Austria shows positive flows to retail funds in 2020 and 2021 and a growth of the household ownership of investment funds.

[56] Wiener Börse News, Börsenumsätze profitieren vom Allzeithoch am österreichischen Aktienmarkt, Listing-Rekord bei Anleihen (4 October 2021) Wiener Börse, accessed 2 November 2021, available at: https://www.wienerborse.at/news/wiener-boerse-news/allzeithoch-oesterreichischer-aktienmarkt-boersenumsaetze-q32021/.



Source: Own elaboration based on OeNB data, 2022; *households are defined as private households and non-profit institutions serving households

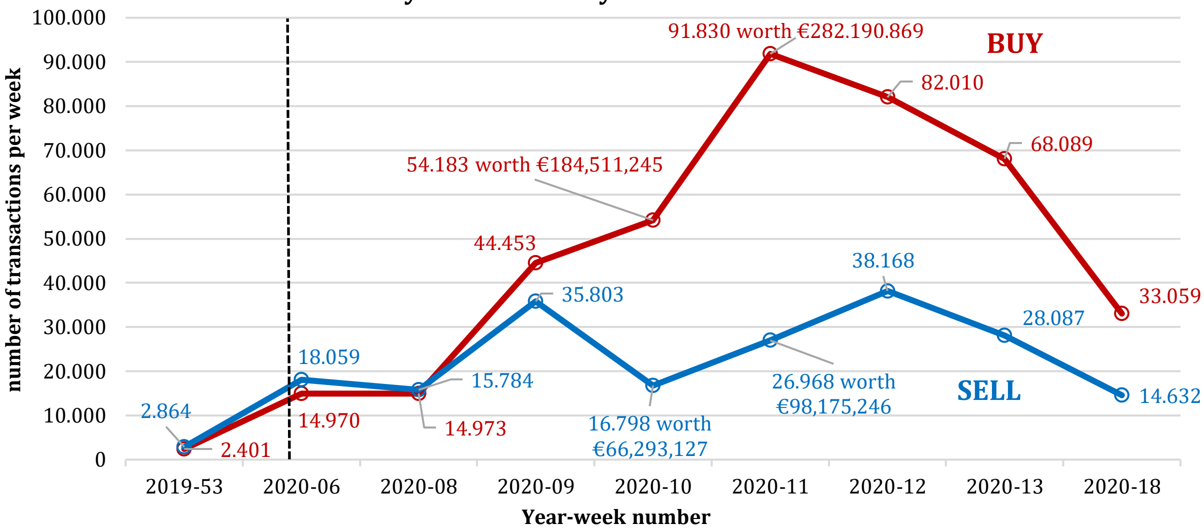
While the Austrian fund market saw a consolidation trend since in the past 15 years, with the number of distributed funds dropping from its peak in 2017 of 2,329 to 1,946 in August 2021, the net growth of retail funds (compared to 2019) made up for 47% of total net flows, increasing the total by €2.73 billion.[57] Equity retail funds have had smaller AuM compared to bond funds, but recorded in 2020 the highest value of the past 20 years (€27.4 billion), adding to the total retail funds which was just below its previous high of 2006. In terms of private investors' (households') direct ownership of fund units, 2020 and 2021 saw positive flows, although at a smaller rate compared to 2018-2019.

[57] See Vereinigung Österreichischer Investmentgesellschaften (VÖIG), *Österreichischer Investmentfondsmarkt: Nettozuwächse nach Zielgruppen in Mio. €*, accessed 2 November 2021, available at: https://www.voeig.at/voeig/internet_4.nsf/sysPages/17E57ACB3C8CD9DDC1257545004EECBB/$file/NMV%20ZG%202001-2020.pdf.

Belgium

A quantitative study undertaken by the Belgian financial supervisory authority (FSMA) in 2020 based on MiFIR regulatory reporting revealed that, starting with the first COVID-19 lockdowns, the "retail" investor sector intensified and increased significantly its trading activity on the BEL20 (Belgian large cap) index, with the most active investors being, by age cohort, those aged between 50 and 60 years old, followed by those aged between 60 and 70 years old, and lastly by those aged between 35 and 50 years old. However, the number of transactions increased exponentially:

Chart 11. Weekly number of buy and sell transaction on the BEL20 index



Source: Belgian FSMA 2021 (link), p. 8 and 9

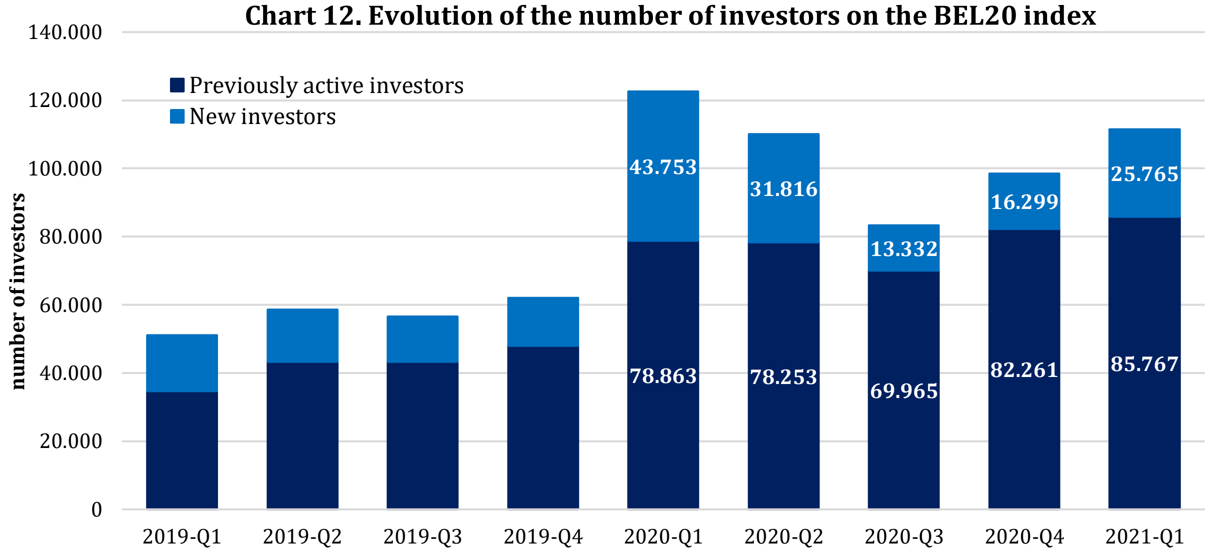
Amid this peak of trading, the Belgian FSMA points that younger investors (aged between the **18 and 35 years old) were significantly more active** during the crisis period. This can be attributed to catching up with the "Gamestop" effect, according to the Belgian supervisor, with "many young, new and occasional investors" having "(re)found their way to the Brussels Stock Exchange during the Coronavirus crisis".[58]

A more recent study (June 2021) of the Belgian FSMA showed that in the first quarter of 2021 the number of private investors in Belgium has doubled compared to the same period in 2019. At the same time, the BE FSMA shows that Belgian investors have also gained an appetite for investing in exchange-traded funds (ETFs).[59]

[58] Belgian Financial Services and Markets Authority (FSMA), *Les achats et ventes d'actions du Bel20 effectués par des investisseurs prives pendant la crise du coronavirus : Étude quantitative réalisé sur la base des déclarations de transactions MiFIR* (27 Mai 2020), available at: https://www.fsma.be/sites/default/files/legacy/content/Presentation/etude_transactions_crisecoronavirus_fr.pdf.

[59] Presentation of the President of the Belgian FSMA, *Webinaire Investisseurs de détail sur la bourse* (21 June 2021) available at: https://www.fsma.be/sites/default/files/media/files/2021-06/20210621_etude_investisseursdetail.pdf.

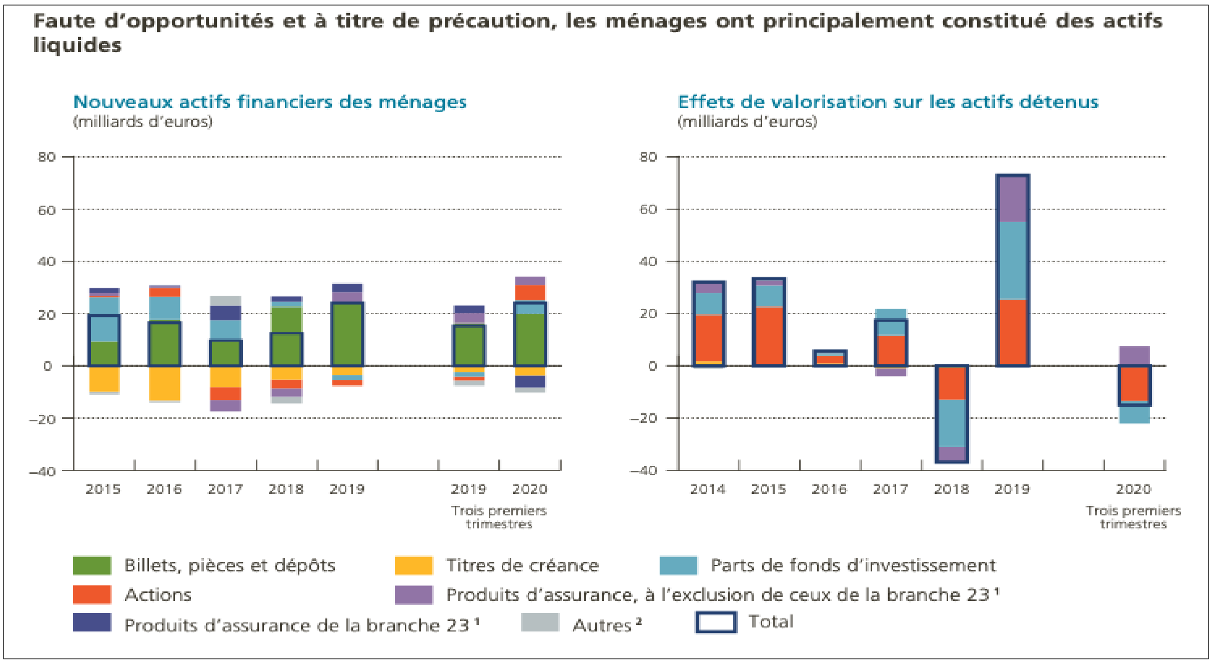
Chart 12. Evolution of the number of investors on the BEL20 index



Source: Own composition based on data from the Belgian FSMA

According to a report by the National Bank of Belgium, Belgian households increased their financial savings, allocating €24.1 billion in cash and deposits and €5.5 billion and €5.6 billion in equities and investment fund units respectively. This allocation of savings was done in the detriment to debt securities and insurance products that lost €3.6 billion and €1.2 billion compared to their 2019 values. In the graph excerpt from the NBB report of 2020 it can be observed that the equity and investment fund unit holdings of Belgian households increased significantly compared to the values of the previous 5 years.[60]

Chart(s) 13. Type of investments of Belgian households



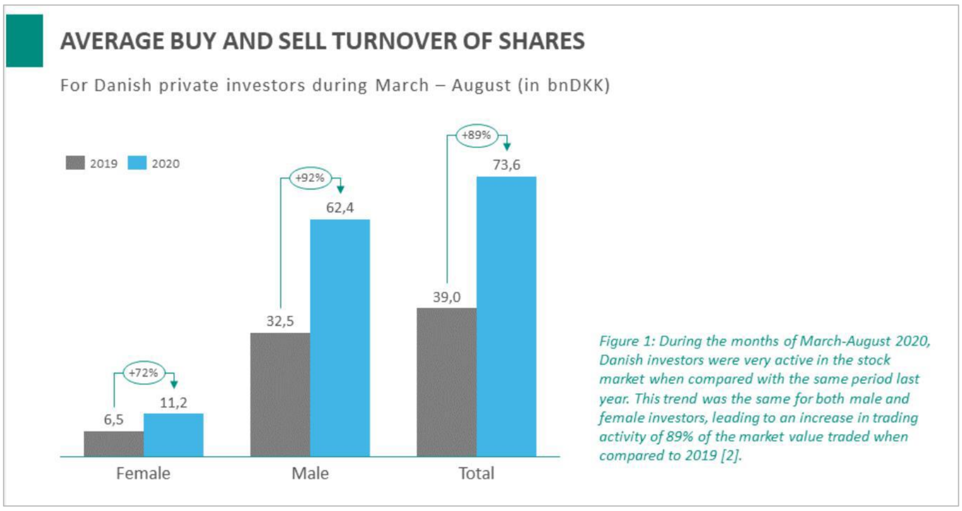
Source : Belgian National Bank, 2021 (link); ***Translation** title*: *"In absence of choice and due to caution, households have mainly built liquid savings"*; *left-hand side graph title*: *"New financial assets of households"*; *Legend*: *(green) currency and deposits; (yellow) debt securities; (turquoise) investment fund units; (orange) equities; (purple) insurance products, except branch 23; (blue) branch 23 insurance products; (grey) other); (white) total.*

[60] Banque Nationale de Belgique, *Rapport 2020 : Développements économiques et financiers* (12 February 2021) p. 175-176, *Graphique 63*, available at : https://www.nbb.be/fr/articles/rapport-2020-developpements-economiques-et-financiers-0.

Denmark

Input from BETTER FINANCE's member association in Denmark (the Danish Shareholder Association, DAF) reports also a high increase in the number of individual, non-professional investors in listed equities. Data from VP Securities (part of Euronext) shows that in March 2020 the trading activity of Danish private investors increased by 163% compared to the same period last year, and during the six month period ending in August, the total trading activity of private investors increased by 89%, from DKK 39 bln in 2019 (March – August) to DKK 73.6 bln in 2020 (March – August).[61]

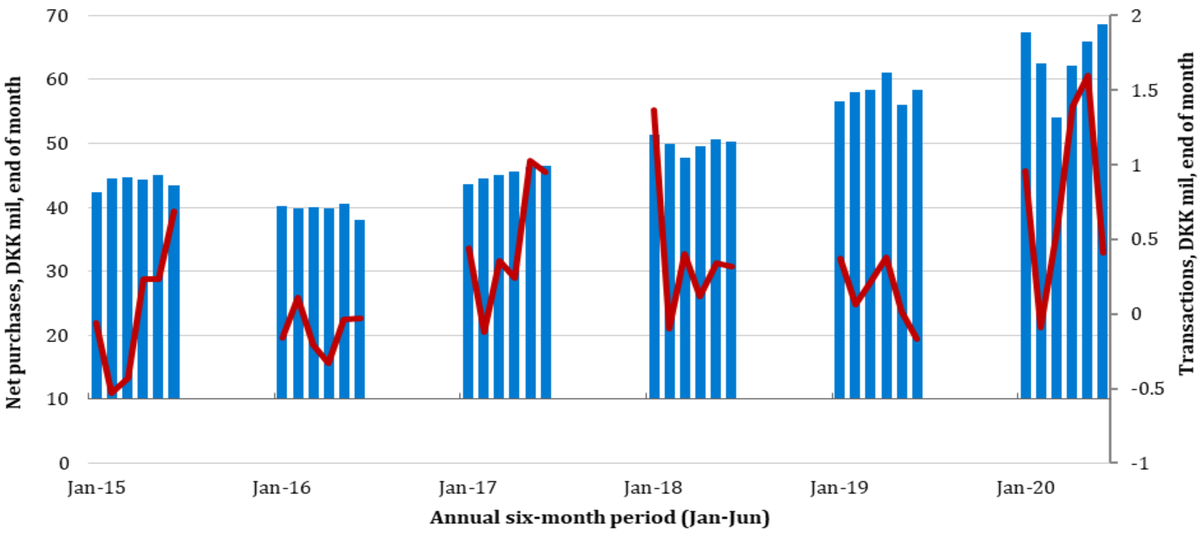
Graph 14. Average buy and sell turnover of Shares in Denmark



Source: VP Securities, 2020

Data from the Danish Central Bank also reveals interesting findings on the behaviour of Danish private investors during the first waves of the COVID-19 pandemic. First, Danish private investors had an increased appetite for foreign shares in the first months of health-related restrictions, with the value of transactions and net holdings (at the end of the month) increasing significantly.[62]

Graph 15. Net purchases and transactions with listed stocks in Denmark



Source: National Banken DK; **red line**: evolution of transactions; **blue bars**: value of net purchases

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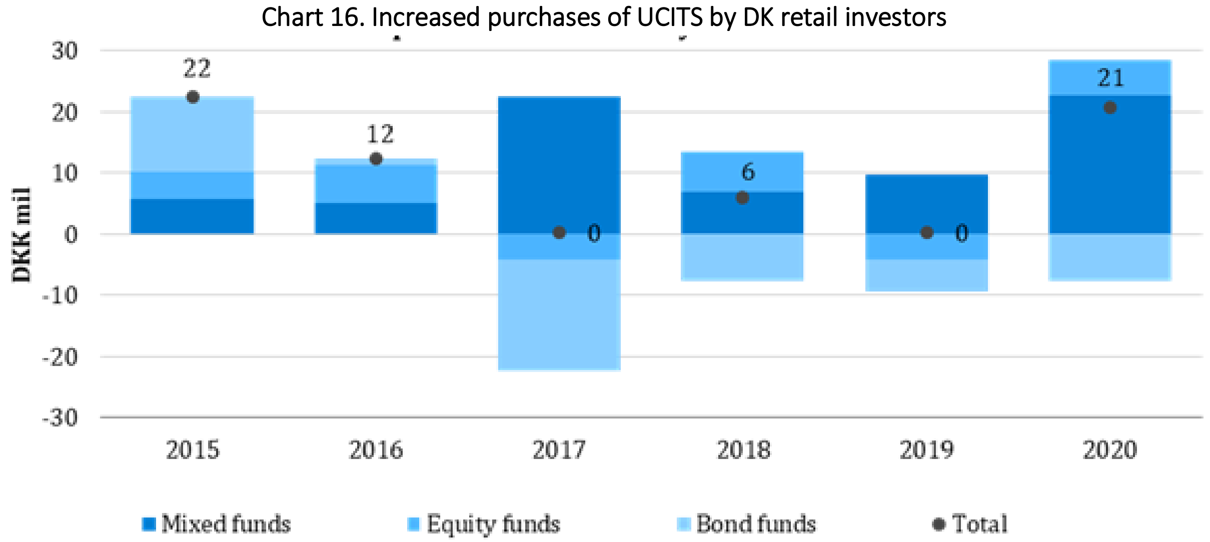
[61] Bjorn Stendorph Crepaz, Nino Ziino, *What's driving the increased trading activity amongst Danish private investors?* (vp.dk, 9 October 2020), accessed 26 July 2021, available at : https://www.vp.dk/News-and-Insights/News-List/2020/10/What-is-driving-the-increased-trading-activity.

[62] Danish Central Bank, *Stor Appetit Efter Udenlandske Aktier Under Coronakrisen* (2020), available at: https://www.nationalbanken.dk/da/statistik/find_statistik/Sider/2020/Portefoeljeinvesteringer-20200728.aspx



Source: National Banken DK, 2020; Note: Accumulated transactions of private Danes on an annual basis in Danish UCITS investment funds, excluding hedge funds.

The increased appetite for investing of Danish retail investors was observed also on the investment fund market. Data from the Danish Central Bank shows increased net purchases of Danish UCITS units.

Finland

During the period of market turmoil in February-March of 2020, several securities exchanges have limited or stopped trading. According to the Investor Barometer of the Finish Foundation for Share Promotion (FFSP), 83% of retail traders in Finland were in favour of keeping the markets open for normal trading schedules and only 6% in favour of closing the stock exchange in case of a crisis.[63]

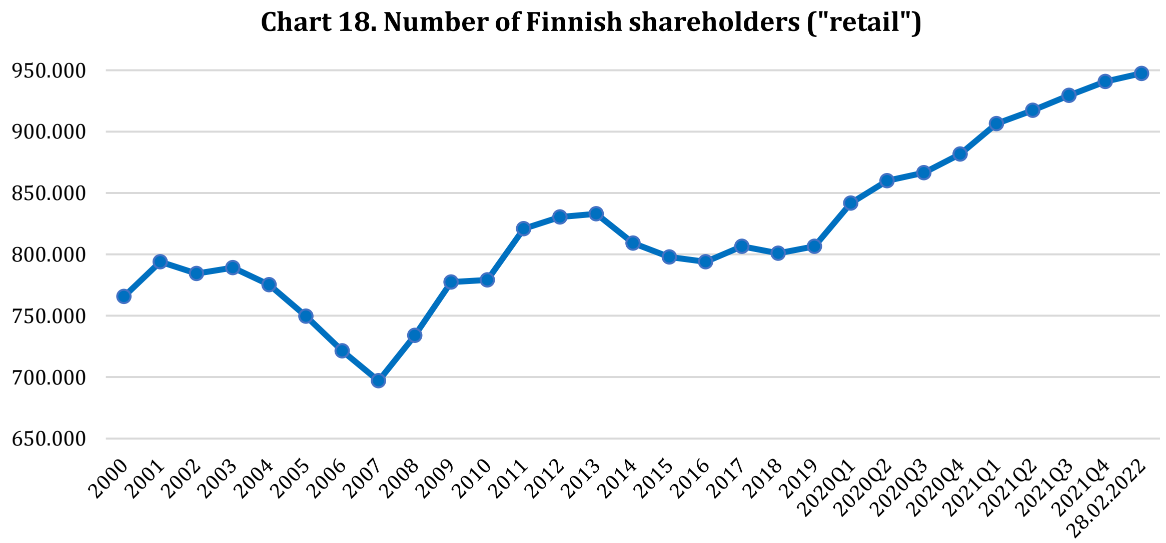
Source: *Finnish Foundation for Share Promotion* (https://www.porssisaatio.fi/en/blog/statistics/kotitalousomistajien-maara-suomessa/).

As of the first quarter of 2020, the number of Finnish individual, non-professional ("retail") investors has exceeded by a significant margin its previous historical high of 2013, when 832,974 households were investing in Finnish capital markets. The first quarter of 2020 saw an additional 48,412 new investors

[63] See Pörssisäätiö, *Yksityissijoittajat Tyytyväisiä Pörssin Kaupankäyntiaikoihin* (11.05.2020) available at: https://www.porssisaatio.fi/blog/2020/05/11/yksityissijoittajat-tyytyvaisia-porssin-kaupankayntiaikoihin/.

(compared to 2019), which continued to grow by 24,693 and 9,661 new investors in the second and third quarters, reaching 890,333. Compared to the last 21-years' high, this represents a 7% increase.

The number of Finnish individual shareholders also grew constantly since the beginning of 2020, and it seems that this trend is sustainable. The first quarter of 2020 saw a spike from 806,567 to 841,988 (+4.4%), and continued to increase throughout 2020 and 2021, reaching at the end of February 2022 (latest data available from FFSP) 947,555 individual "retail" shareholders. Compared to the previous 21-year high (2013, 832,947) this represents a +14% increase. In total, since the beginning of the century, Finnish capital markets count almost 200,000 more individual savers as shareholders in listed companies.



Source: *Finnish Foundation for Share Promotion* (https://www.porssisaatio.fi/blog/statistics/kotitalousomistajien-maara-suomessa/).

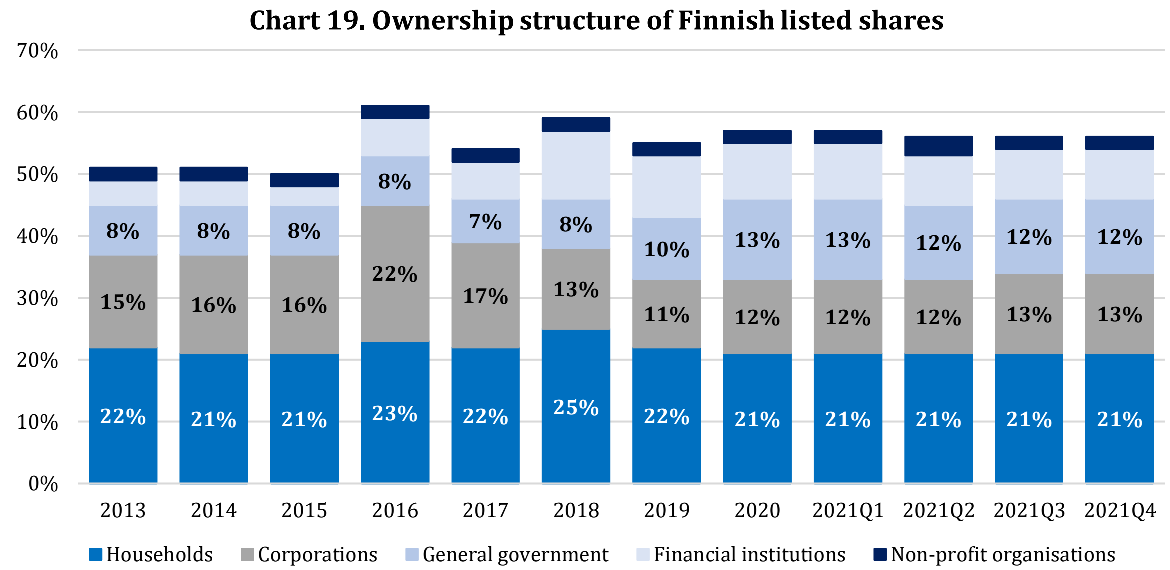
According to the Finnish Foundation for Share Promotion (FFSP), individual shareholder activism soared during the pandemic due to the fact that individual, minority shareholders are more able to deliver an impact as digitalisation, social media and discussion forums enabled them to get more support. Moreover, although the first year of the pandemic prevented physical meetings, it seems that for many listed companies in Finland there was no gap for general assemblies, thanks to digital tools: the interim law allowed remote annual general meetings to take place, in certain instances with full participation rights for shareholders. According to the FFSP, Finnish lawmakers are also working on amendments to the Companies Act enabling hybrid and remote general assemblies.[64]

In fact, the Finish Foundation for Share Promotion reported (based on Euroclear Finland data) that the largest domestic owner of listed shares are "retail" investors, representing 22% in share ownership.[65] As apparent from the chart below (which excludes the ownership sector of *foreign investors*, comprising both direct ownership by foreign investors and ownership through nominee accounts).[66]

[64] See Eva Ketvel, *Omistaja-Aktivismi Nossut* (porssisaatio.fi, 29 March 2022) available at: https://www.porssisaatio.fi/blog/2022/03/29/omistaja-aktivismi-noussut/#yksityissijoittajat.

[65] Ibid.

[66] The sector *general government* includes includes large institutional investors such as institutions for occupational retirement provision – see Porssisaaito (https://www.porssisaatio.fi/en/blog/statistics/share-ownership-by-owner-groups/).



Source: FFSP based on Euroclear Finland data (https://www.porssisaatio.fi/blog/statistics/sekto0rijakauma-osakeomistuksesta/)

On average, Finnish households held 22% of the total equity of Finnish listed stocks, representing more than twice than the General government (and large institutional investors such as IORPs) and three times more than financial institutions, which averaged at 10% and 7% respectively.

Thus, the three charts above show a clear and solid equity investment culture among Finnish households, who represent the main domestic investors in shares listed on the national equity market. This case, as is the Swedish and Danish model, should be further analysed and be taken as a best practice example for EU policy in determining an equity and investing culture for EU households.

France

According to the French National Statistics Institute (INSEE), the financial savings rate of French households almost tripled between 2019 and 2020 and set a new historical high, reaching 12.2% in 2020, or 5.2 p.p. higher than the previous record of 1975 (7%). In fact, the financial savings rate of French households in 2020 was the highest of the last 71 years (1950 – 2020), as shown in the graph no. 18. Whereas in 1950, French households allocated around 6.9% of their net disposable income to financial assets, rate which was only topped 15 years later and which retracted to even 0% in 1987, it almost doubled by 2020.

Not all these new savings went to direct capital market investments: according to the French Central Bank (Banque de France), the majority (87%) of net capital flows of French households were directed to banking products (currency, current accounts and term deposits, €162.6 billion) and unit-linked insurances (€16.8 billion). However, equity investing saw a strong and significant increase in 2020: the net capital flows to listed equities stood at €13.1 billion in 2020, compared to the net value of € -2.3 billion in 2019 (divestment).[67]

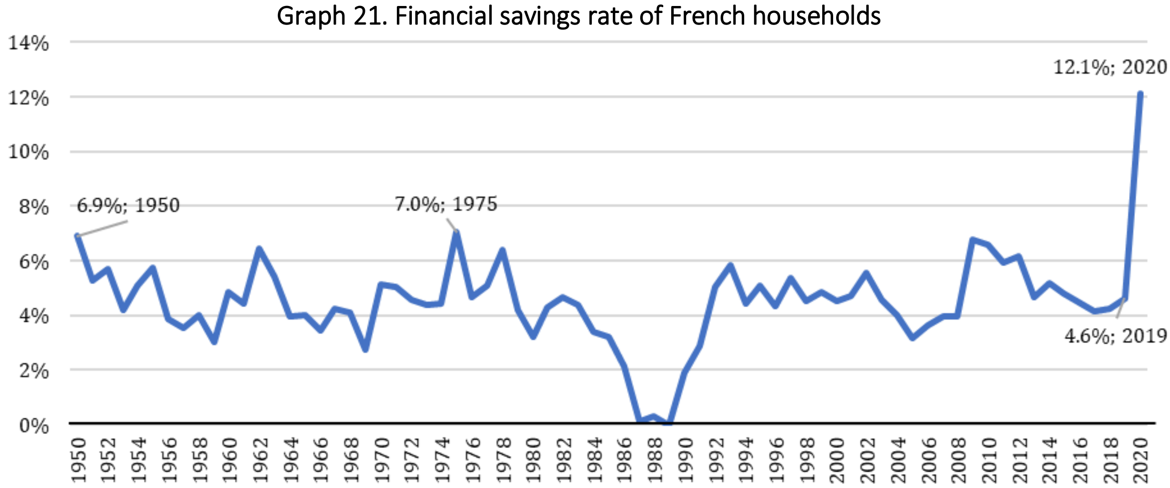
[67] Banque de France, *Presentation Trimestrielle de l'Epargne des Ménages* (2020Q4), 01/06/2021, available at : https://www.banque-france.fr/statistiques/epargne-et-comptes-nationaux-financiers/epargne-des-menages/presentation-trimestrielle-de-lepargne-des-menages.

Table 20. Net capital flows of FR households annual amounts (€ bln)		
	2019	2020
Total	129.7	205.2
Currency and current accounts	48.5	95.8
Term deposits	40.2	66.8
Money market fund units (UCIs)	-0.9	-0.3
Capital guaranteed life insurances	39.5	-2
Direct held debt securities	-4.5	-1.6
Indirect held debt securities (UCIs)	-0.3	-0.2
Listed shares	-2.3	13.1
Other equities	19	18.5
Unit-linked life insurances	2	16.8
Indirectly held shares (UCIs)	-6.7	-1.8
Other	-4.8	0.1

Source: Banque de France 2021

Nevertheless, most savings of French households were directed to banking products (term deposits, current accounts and currency holdings), representing 79% of net flows in 2020, followed by other equities (€18.5 billion) and unit-linked life insurances (€16.8 billion). It is worth mentioning the sharp increase of net flows in unit-linked insurances between 2019 (€2 billion net flows) and 2020 (€16.8 billion).

Graph 21. Financial savings rate of French households

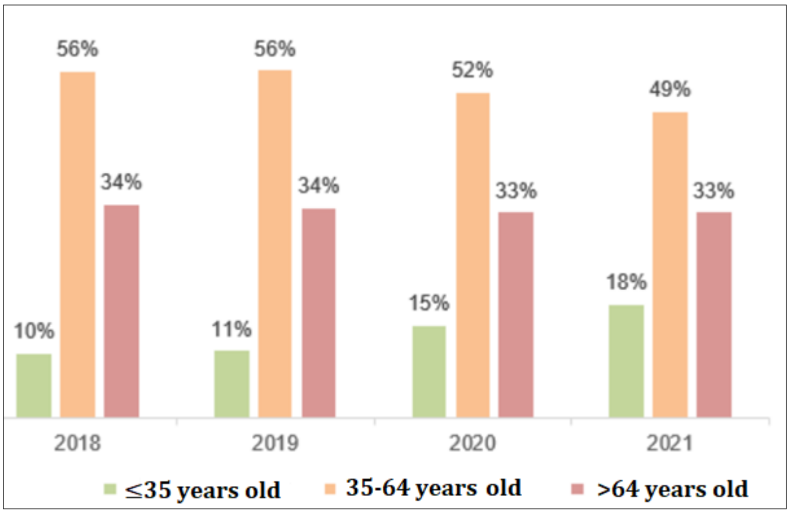


Source: INSEE 2021 (link)

A study conducted for the French securities markets supervisor (AMF) revealed a 7 p.p. increase in the share of younger (≤35 years old) investors in French capital markets (from 11% to 18%), investor category which also increased its equities exposure from 2.3% to 4.4% in 2021 compared to 2019. The arrival of the younger generation to capital markets, sparked by the March-April 2020 volatility due to COVID-19 restrictions, brought down the median age of French individual investors from 58 years old in 2019 to 46 years old.[68]

[68] AMF France, *La Lettre de l'Observatoire de l'Epargne de l'AMF* (43) July 2021, available at : https://www.amf-france.org/sites/default/files/private/2021-07/loe-43_2.pdf.

Graph 22. Evolution of French private investors by age cohort (2018-2021)

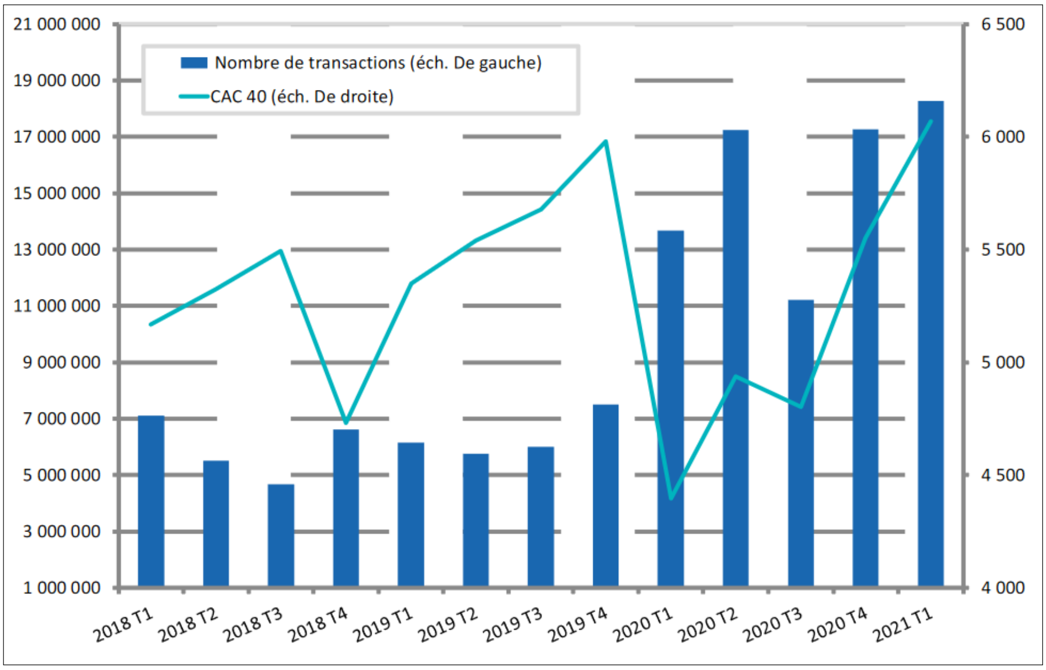


Source: AMF France 2021 (link), p. 2; *legend replaced and translated by BETTER FINANCE*

The number of French investors (i.e., those either holding a unit-linked contract or other securities) increased from 17.8% in 2019 to 19.1% in 2020,

However, compared to three years ago (2018) the trading activity of French non-professional shareholders increased significantly (ca. +140%) in 2020, reaching around 60 million trades in EU-listed shares, out of which around 25,000 were on the CAC40 (French large cap) index. Out of the 60 million equity trades executed in 2020, almost a quarter was transmitted only in the months of March and April 2020.

Graph 23. Quarterly number of trades executed for French individual investors on equities listed to trading in Europe and the level of CAC40



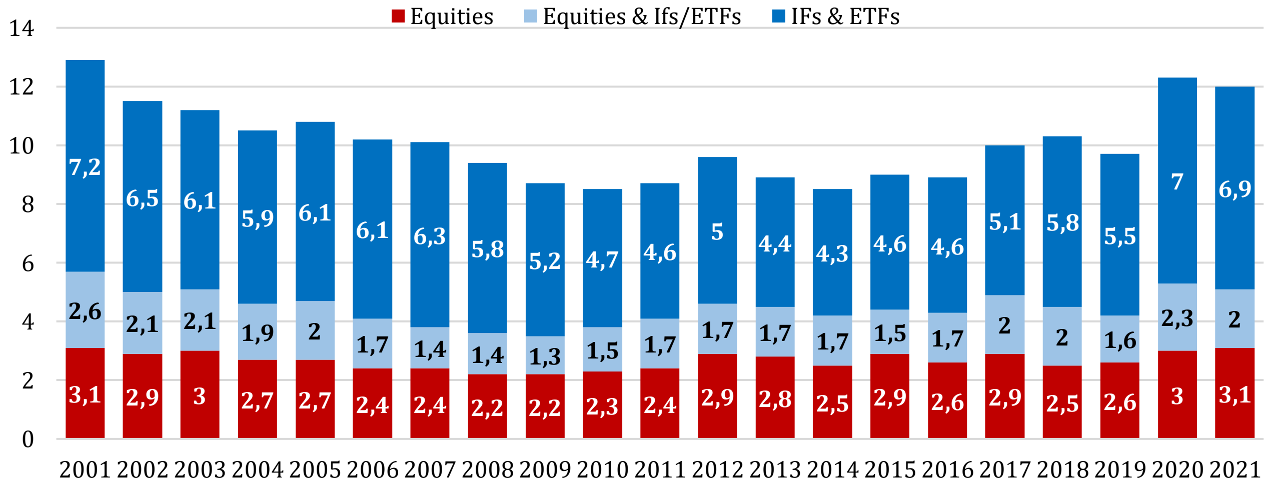
Source: AMF Report 2021 (link), p. 92

Another analysis on the trading activity of retail investors during the first wave of COVID-19 lockdowns shows an increase in stock acquisition from the SBF 120 during the period of 24/02 – 03/04/2020: around 580,000 retail clients bought on average three (3.3) new stocks, of which "*more than 150,000 retail clients who had not made any direct financial investment transactions in 2018 and 2019*" (these new investors were significantly younger compared to the usual ones, i.e. 10-15 years younger).[69] This represents a significant improvement considering that the weekly average net flow in 2019 was negative (divestment of €115 million, amounting to a decrease of €5.4 billion throughout the year), while the six weeks under observation in the first lockdown aggregated a net capital flow to SBF 120 equities of €3.24 billion.[70]

Germany

According to figures published by Deutsche Aktieninstitut (latest 2022), in 2020 the number of individual German shareholders reached the highest level of the past 19 years: slightly below 12.4 million citizens in Germany owned individual stocks or equity-based investment funds (incl. ETFs). Compared to 2019, this is an increase of 27 per cent (2.7 million new savers overall). This corresponds to 17.5 percent of the population aged 14 and over in Germany, which is the highest number since 2001. The biggest increase came from ownership of mutual funds. 9.3 million citizens owned at least one investment fund (incl. ETFs), representing a 31 per cent increase to 2019 (2.2 million additional savers in this category). In 2020, 5.3 million Germans owned at least one individual stock, which is a 1.2 million increase compared to 2019 and represents a total of around 7.6 per cent of the population aged 14 years and over. In 2021 the high levels subsisted, recording 12.1 million individual shareholders in Germany (6.9 million only with investment funds and ETFs, 3.1 million only with shares, and 2 million holding both types of investments).

Chart 24. Evolution of capital market investments by private German investors



Source: BETTER FINANCE composition based on data from Deutsche Aktieninstitut (2022 – link)

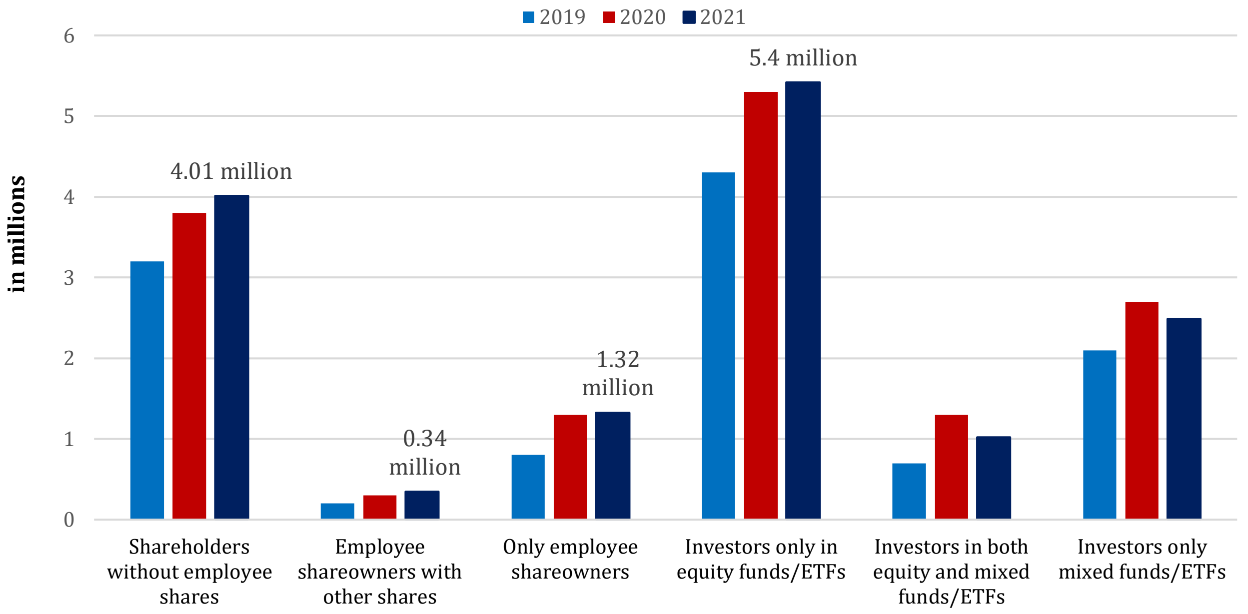
Another study about the *stock exchange hype* estimated that the German capital market welcomed at least 4 million new investors in 2020, and also pointed out to a record number of weekly downloads of a trading application (brokerage platform for retail investors) starting with the last quarters of 2020 and reaching a peak in the first quarter of 2021.[71]

Data from Deutsches Aktieninstitut[72] also shows a significant increase in the number of employee shareowners in Germany in 2020 and 2021 compared to 2019. Around 1.66 million of direct

[69] Autorité des Marchés Financiers, 'Retail Investor Behaviour During the COVID-19 Crisis' (April 2020) Markets Directorate, p. 5, 7 & 8, available at: https://www.amf-france.org/sites/default/files/2020-04/retail_investors_equities_march_2020_en.pdf.
[70] AMF study (above), p. 5.
[71] John Stanley Hunter, 'Börsenhype 2020: Mindestens vier Millionen Deutsche sind neu am Aktienmarkt' (financefwd.de, 11 February 2021) accessed 16 July 2021, available at: https://financefwd.com/de/civey-boersenhype/.
[72] Methodological note: Deutsches Aktieninstitut refers to all women and men as "equity savers" who participate in the development of the equity market either directly with individual stocks or indirectly with funds or exchange traded funds (ETFs).

shareholders are employee shareholders. This means that by the end of 2021, around 660,000 more employees took the opportunity to participate in employee stock option plans.

Chart 25. Evolution of the number of German private investors by asset type



Source: Deutsche Akteninstitut, 2020 (link), p. 6; Deutsches Aktieninstitut, 2021 (link), p. 21;

Data from the Deutsche Aktieninstitut also shows, distinguishing by asset type and source, significant increase in the number of employee shareowners in Germany in 2021 compared to 2019: around 500,000 more savers with only employee stock ownership plans, as well as around 500,000 new shareholders that do not hold at all employee equities. At the same time, the largest increase is observed in the numbers of investors that hold only units in equity funds or equity exchange-traded funds (ETFs), i.e. approximatively 1,400,000 new investors.

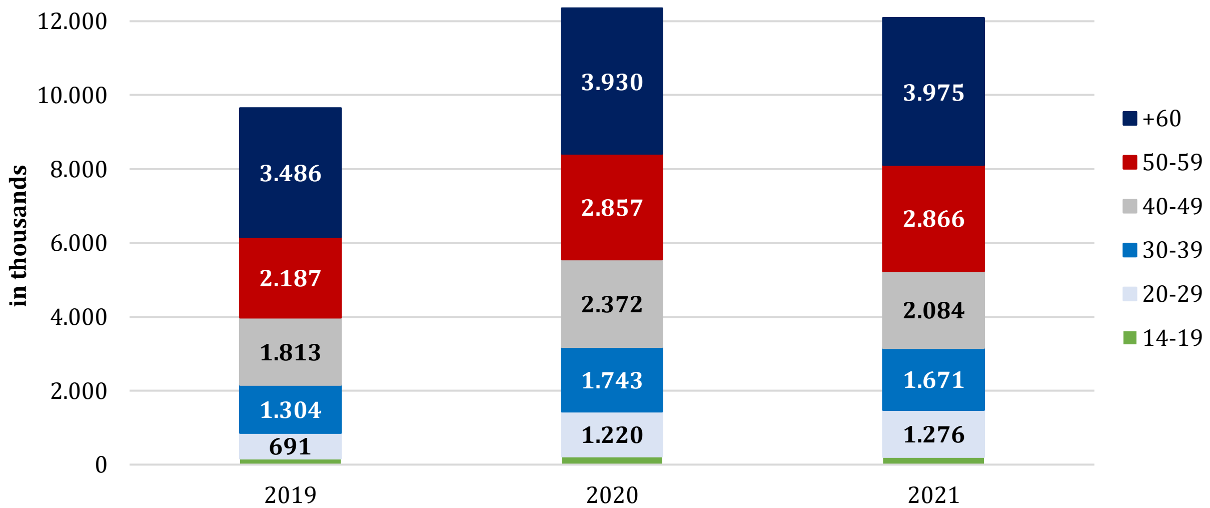
In terms of age cohorts, the highest increase was observed with the youngest generation (14-29 years old), where the number of shareholders grew by 67%, followed by those aged between 30-39 years old, where 400,000 new savers bought shares (34% increase compared to 2019).[73]

Young people in particular started investing in the stock market as well. Almost 600,000 young adults under the age of 30 invested individual stocks or investment funds (incl. ETFs) – an increase of almost 70% compared to the previous year. This is by far the strongest increase of all age groups.

Furthermore, Deutsches Aktieninstitut only collects data for individuals and not for households. Because of the possible overlap of the two groups - an investor can hold individual stocks as well as units in funds/ETFs - the two groups cannot simply be added together. Therefore, the statistics of Deutsches Aktieninstitut distinguish: (1) Persons who only hold shares, but not fund units. ("shares only"), (2) persons who own only fund units but not shares ("funds/ETFs only"), and (3) persons who own both shares and units in equity funds ("shares and funds/ETFs"). Overlaps can also be found within the groups of shareholders and the group of investors in funds/ETFs.

[73] Deutsche Aktieninstitut, *Deutschland und die Aktie: Eines neue Liebesgeschichte?* (2020), p. 10, available at: https://www.dai.de/fileadmin/user_upload/210225_Aktionaerszahlen_2020.pdf.

Chart 26. Development of equity-like ownership in Germany by age group

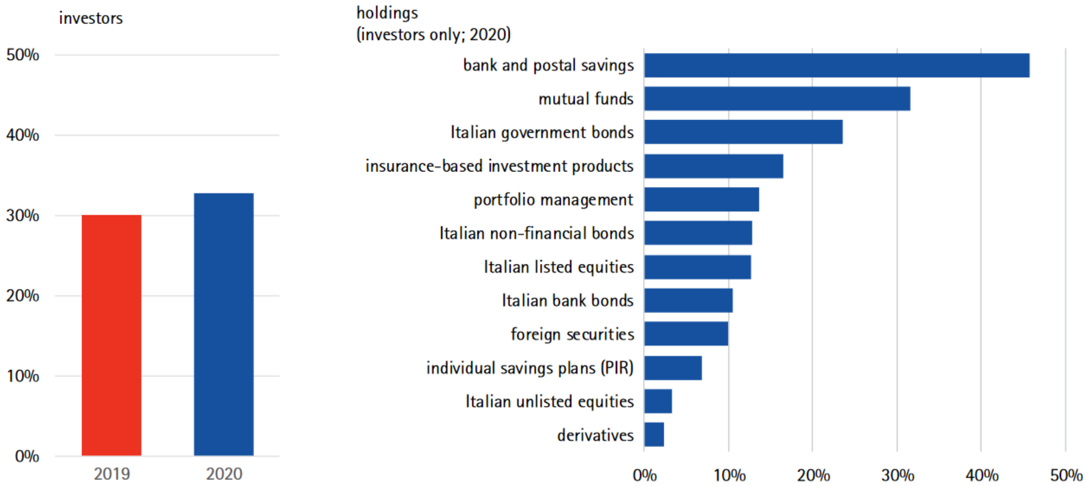


Source: Deutsches AktienInstitut, 2020 (link); Deutsche Aktieninstitut, 2021 (link) ; includes company shares and ownership in mutual funds;

Italy

Although the situation in Italy has been more difficult due to the much stronger impact of the global health pandemic on the economy, there are still similarities in the behaviour of households during the first wave of lockdowns, reflecting an increased number of retail investors arriving to capital markets. The participation rate of Italian households in financial markets increased by 4 p.p. between 2019 and 2020 (from 30% to 34%),[74] while the new investors (in 2020) represented 7% of the total active investors between 2018 and 2019.[75] However, the most frequently held products by Italian non-professional investors are bank and postal savings, mutual funds, and Italian Government bonds, whereas listed equities are invested in by just above 10% of Italian individual investors.

Table 27. IT retail investors' participation rate in financial markets



Source: CONSOB Report 2020 (link), p. 41, fig. 6.1;

[74] Figure 6.1 of the CONSOB Report, p. 41, available here: https://www.consob.it/documents/46180/46181/rf2020.pdf/ccfe7ad2-810f-4490-bd7e-413daa24c391.

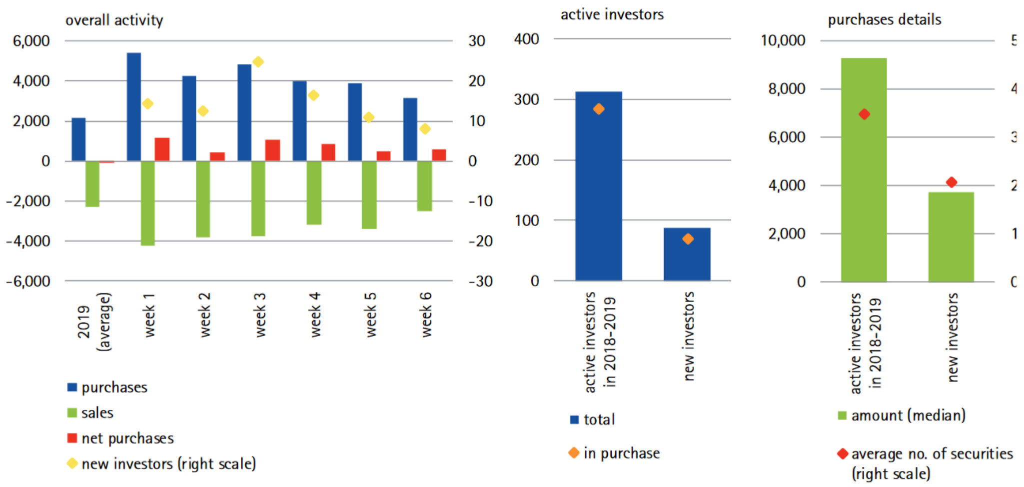
[75] CONSOB Report, p. 19, available here: https://www.consob.it/documents/46180/46181/rf2020.pdf/ccfe7ad2-810f-4490-bd7e-413daa24c391.

In terms of retail trading, the first quarters of 2020 saw an increased trading activity of Italian retail investors on the equities of Italian companies included in the FTSE AllShare index between 24 February and 3 April 2020.

Table(s) 28. Data from CONSOB on retail investors in Italy

Fig. 2.13 – Italian retail investors activity on domestic equities during high volatility weeks due to the Covid-19 crisis

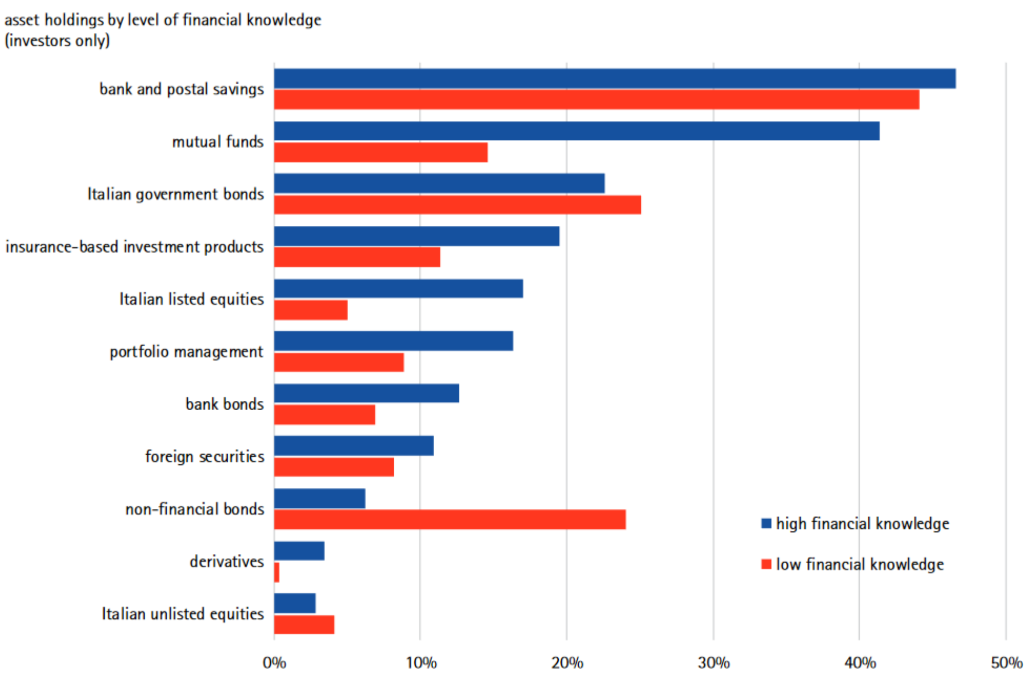
(24 February 2020 – 3 April 2020; weekly data; amounts in millions of euro; number of investors in thousands)



Source: CONSOB Report 2020 (link), p. 19

During the period under observation by CONSOB, Italian retail investors reached a net flow of capital into Italian equities of €4.5 billion (net purchases), which is considerably higher than the 2019 average (which is negative). Also interesting from the CONSOB survey is the acquisition and holding of financial assets by level of financial knowledge (self-assessment).

Table 29. Data on IT retail investors' holdings



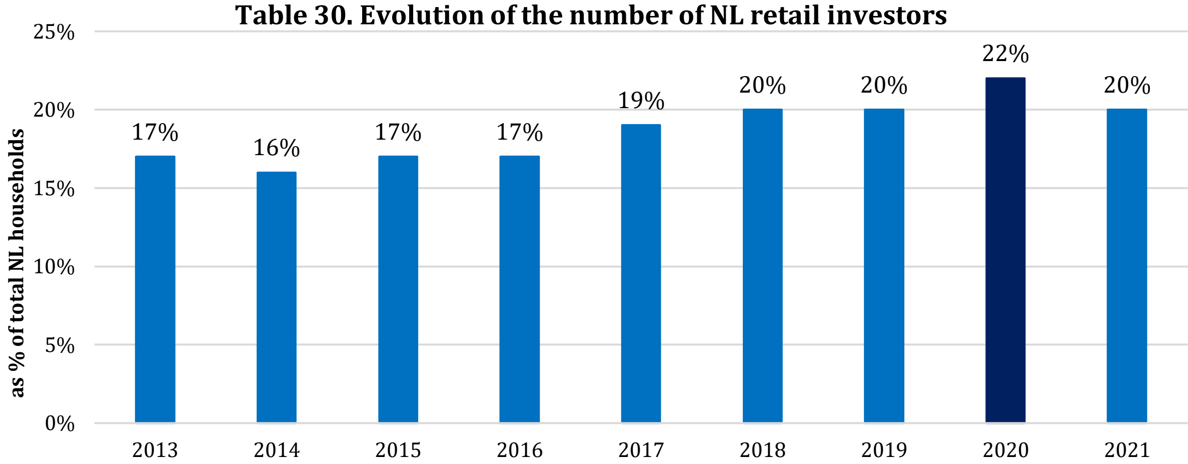
Source: CONSOB Report 2020 (link), p. 42, fig. 6.2;

It seems that Italian retail investors who self-assessed as more financially literate (*high financial knowledge*) hold much more Italian listed shares and units in investment funds, but also more insurance-based investment products (IBIPs) and derivatives, while investors with a lower level of financial knowledge hold considerably more non-financial bonds (i.e. bonds issued by non-financial corporations), unlisted shares and Italian Government bonds.

Netherlands

Health restrictions in 2020 have caused a surge in account openings in the Netherlands as well: the number of private (individual, non-professional) investors in the Netherlands has reached the highest value in the last 24 years (since 1995) at 1.96 million individual investors.[76] According to the Dutch supervisory authority, more than one in five Dutch households had been investing in 2020 (22%), which is the highest value of the last 8 years. The majority of these investors still choose execution-only services, with a slight increase compared to 2019.

Table 30. Evolution of the number of NL retail investors



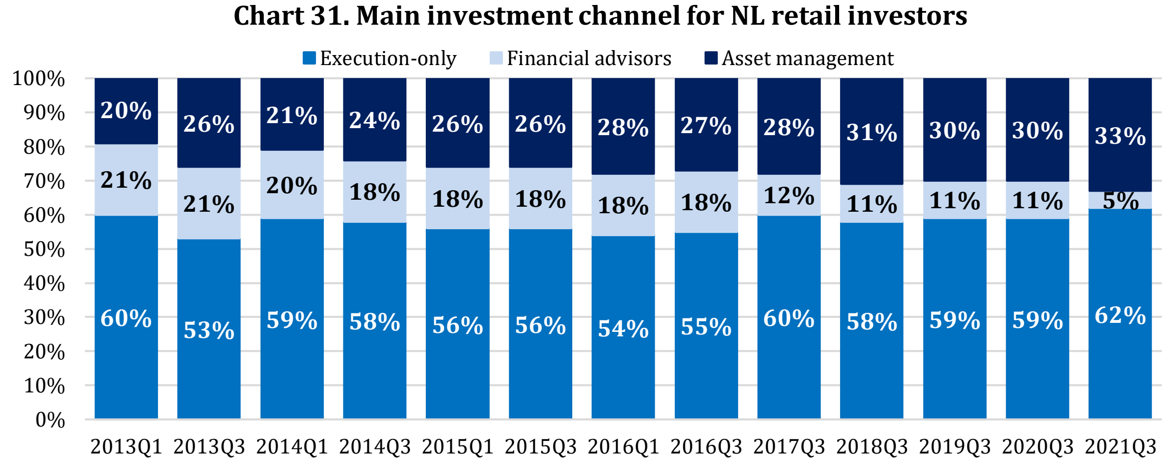
Source: Own elaboration based on AFM data (2020 and 2021);[77]

Among the main reasons that drove the higher participation rate in capital markets for Dutch private investors, the Dutch AFM found that investors who invest by themselves (execution-only) are driven by reasons of asset preservation (57%), followed by specific objectives (34%) and the challenge of the activity (investing, 30%). Among those who invest via a financial adviser, they are more driven by specific reasons (47%) and asset preservation (42%), the same as those who invest through an asset manager.[78]

[76] Statista data, 2021, available at: https://www.statista.com/statistics/960772/number-of-private-investors-in-the-netherlands/.

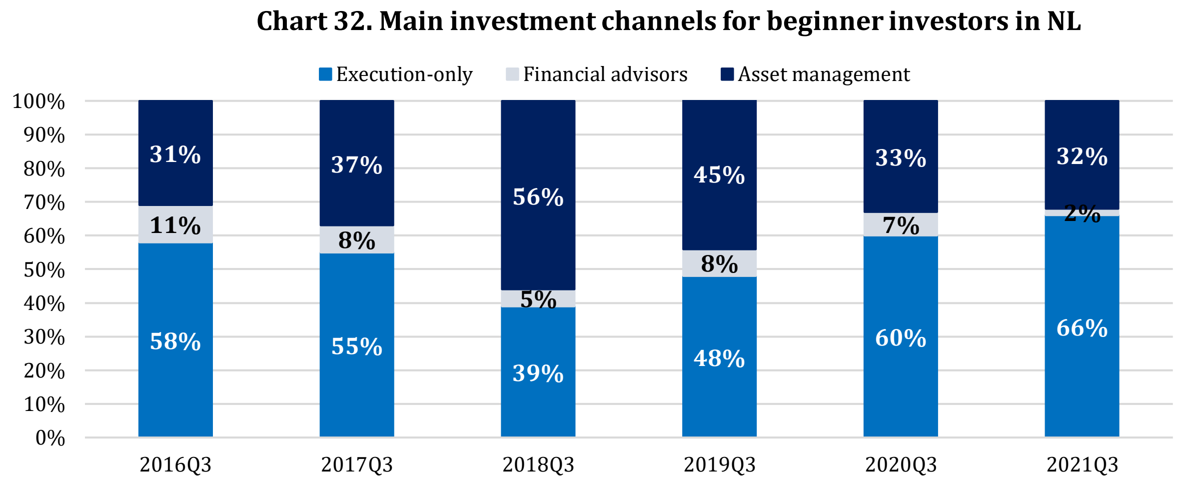
[77] See Autoriteit van Financiële Markten, *AFM Consumentenmonitor Najaar 2020: Onderdeel Beleggers* (2020) AFM, p. 5, available at: https://www.afm.nl/nl-nl/professionals/nieuws/2021/april/consumentenmonitor-beleggen-najaar-2020.

[78] Ibid, p. 13.



Source: Own elaboration based on AFM data (2020 and 2021);[79]

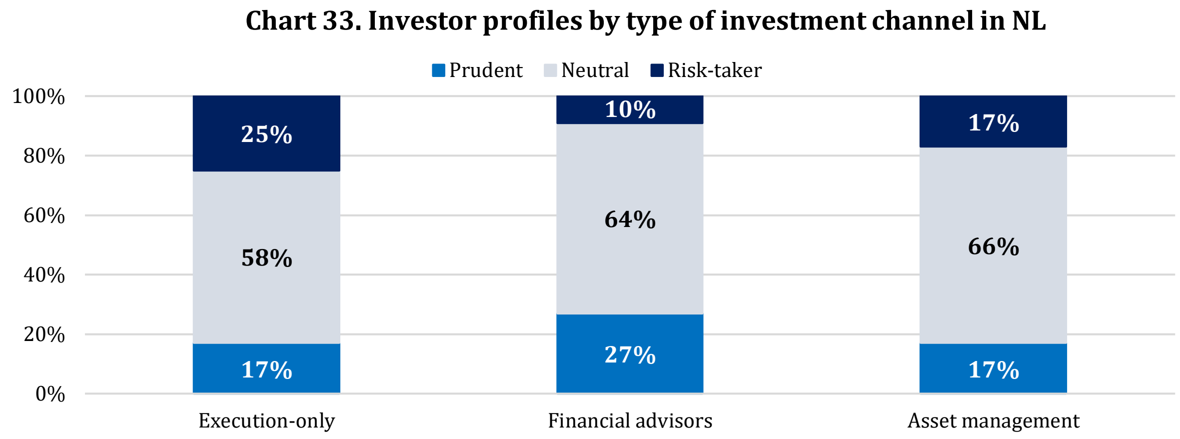
Dutch retail investors have traditionally been "diy" (do-it-yourself) investors, as for almost 58% the main investment channel is execution-only, followed by asset managers (average 28%) and financial advisers (8%).



Source: Own elaboration based on AFM data (2020 and 2021);[80]

In line with the trend observed across other jurisdictions in the last year and a half, new investors in NL capital markets have been more oriented towards execution-only through brokerage platforms rather than with financial advisors and asset managers. While the NL AFM did not investigate the reason, it may be due to the behavioural biases and social trading phenomenon investigated in the first section of this report.

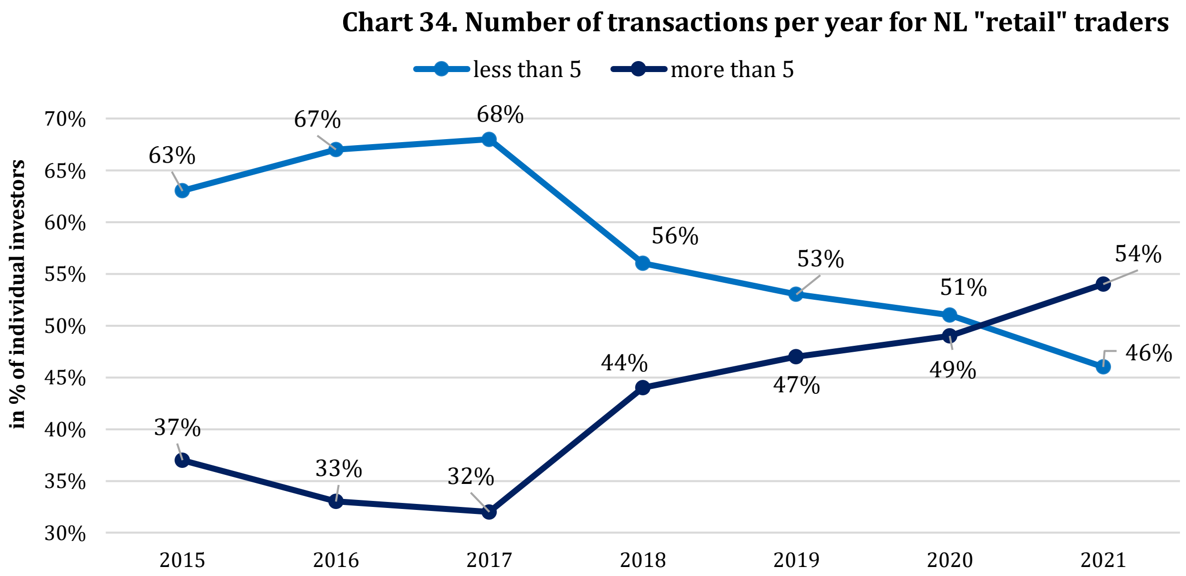
[79] See Autoriteit van Financiële Markten, *AFM Consumentenmonitor Najaar 2020: Onderdeel Beleggers* (2020) AFM, p. 5, available at: https://www.afm.nl/nl-nl/professionals/nieuws/2021/april/consumentenmonitor-beleggen-najaar-2020.
[80] See Autoriteit van Financiële Markten, *AFM Consumentenmonitor Najaar 2020: Onderdeel Beleggers* (2020) AFM, p. 5, available at: https://www.afm.nl/nl-nl/professionals/nieuws/2021/april/consumentenmonitor-beleggen-najaar-2020.



Source: Own elaboration based on AFM data (2021);[81]

In AFM's study, the results about the risk profiles of NL retail investors are different to what other supervisory authorities (UK FCA[82] for instance) or studies have found in relation to retail investors, especially the younger generations.[83] Particularly, only a small part of non-professional investors in the Netherlands in 2020 were risk-oriented (25%; 10%; 17%), whereas the vast majority were neutral or defensive/prudent.

It seems a much better outcome given the high share of individual investors that employ a "diy" model with execution-only services as there is often the tendency to overestimate one's financial knowledge and capabilities[84] and take risks that the investor does not understand or adequately factor in the decision-making.



[81] See Autoriteit van Financiële Markten, *AFM Consumentenmonitor Najaar 2020: Onderdeel Beleggers* (2020) AFM, p. 5, available at: https://www.afm.nl/nl-nl/professionals/nieuws/2021/april/consumentenmonitor-beleggen-najaar-2020.

[82] United Kingdom Financial Conduct Authority, *FCA Warns that Younger Investors Are Taking on Big Financial Risks* (23 March 2021) Press Release, available at: https://www.fca.org.uk/news/press-releases/fca-warns-younger-investors-are-taking-big-financial-risks.

[83] In this sense, see Randy Priem, 'An Exploratory Study on The Impact of the COVID-19 Confinement on the Financial Behaviour of Individual Investors' (2021) 16(3) Economics, Management, and Financial Markets, available at: https://addletonacademicpublishers.com/contents-emfm/2216-volume-16-3-2021/4053-an-exploratory-study-on-the-impact-of-the-covid-19-confinement-on-the-financial-behavior-of-individual-investors.

[84] See BETTER FINANCE's analysis on financial education as part of the 2020 Robo-advice report, BETTER FINANCE, *Robo-Advice 5.0: Can Consumers Trust Robots?* (25 January 2021), BETTER FINANCE, available at: https://betterfinance.eu/publication/robo-advice-5-0-can-consumers-trust-robots/.

Source: Own elaboration based on AFM data (2020 and 2021);[85]

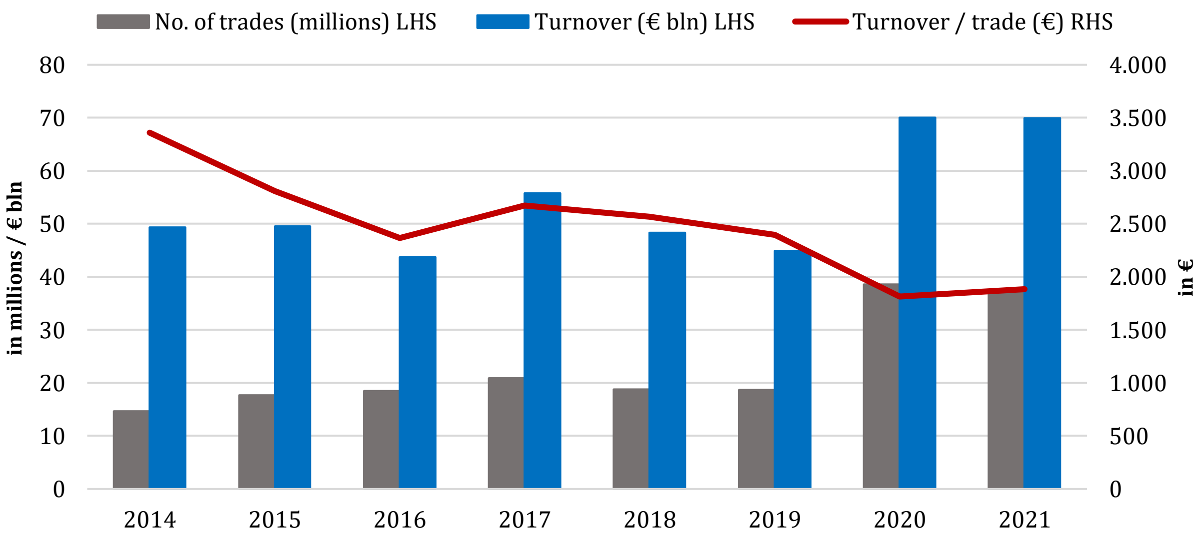
Finally, looking at how active NL retail investors have been over the last six years, we can observe an increase in the number or frequency of trades since 2017. If, until then, 70% NL retail investors were more passive, mostly adopting a "buy and hold" strategy, by the end of 2020 the ratios have become equal, and almost half of all non-professional savers in the Netherlands that do invest in capital markets undertake more than 5 trades per year, which is a quite high rate.[86]

Poland

The outbreak of the health restrictions in Poland have brought back non-professional savers to the stock market, ending a possible "dawn" of retail investing, as some experts had put it.[87] According to the precited source, retail investors became more active on the Warsaw Stock Exchange, and accounted for 25% for the turnover of the local equity market in 2020 and 22.5% in 2021. The value of transactions of "retail" investors almost tripled in the first half 2020 (compared to the second half of 2019), amounting to PLN 59.8 billion, and the highest share of the turnover value for retail investors was observed in the second quarter of 2020, when it reached 27%, significantly increasing compared to the previous high of the first quarter of 2017 (18%).

Indeed, the data gathered by BETTER FINANCE from the Polish securities markets' supervisor (Komisjia Nadzoru Finansowego) and the Federation of European Stock Exchanges (FESE) validates these findings. To begin with, data on the activity on the Warsaw Stock Exchange (GPW) shows a considerable increase in the total turnover value and number of trades on the electronic order book (EOB), respectively 56.3% in 2020 (compared to 2019) and 106.4% for the number of trades.

Chart 35. WSE trading (Electronic Order Book)



Source: BETTER FINANCE own composition based on FESE EEMR data 2014-2021[88]

[85] See Autoriteit van Financiële Markten, *AFM Consumentenmonitor Najaar 2020: Onderdeel Beleggers* (2020) AFM, p. 5, available at: https://www.afm.nl/nl-nl/professionals/nieuws/2021/april/consumentenmonitor-beleggen-najaar-2020.

[86] In this sense, see BETTER FINANCE's methodological notes on the MiFID II and PRIIPs survey conducted with individual investors where we describe how active were the respondents, in general: BETTER FINANCE, *MiFID II and PRIIPs Implementation Survey: Are The New Rules Serving Their Purpose?* (November 2021), BETTER FINANCE, available at: https://betterfinance.eu/publication/mifid2-and-priips-implementation-study-are-the-new-rules-serving-their-purpose/.

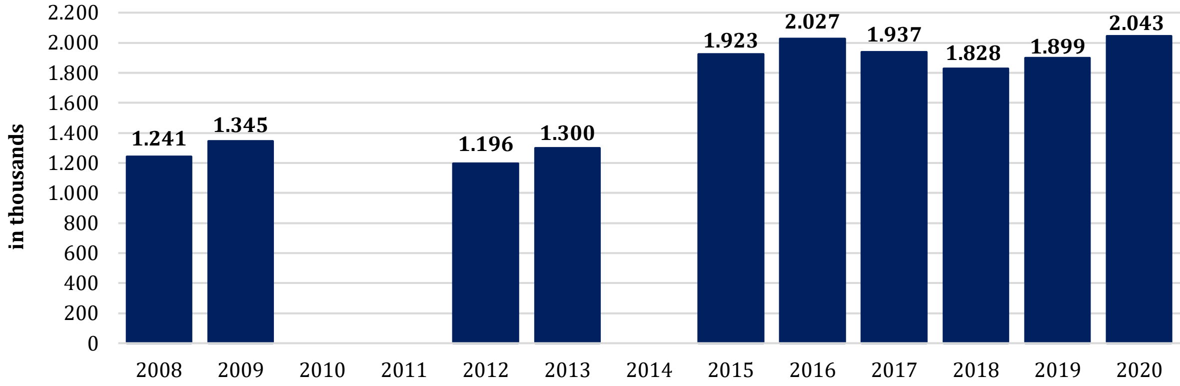
[87] Przemysław Tychmanowicz, Inwestorzy indywidualni osłabli, ale wciąż trzeba się z nimi liczyć (parkiet.com, 29 January 2022) available at: https://www.parkiet.com/biura-maklerskie/art26446101-inwestorzy-indywidualni-oslabli-ale-wciaz-trzeba-sie-z-nimi-liczyc.

[88] FESE European Equity Market Reports, available at: https://www.fese.eu/statistics/.

The stronger presence of "retail" investors is suggested also by the smaller value of trades: the average turnover per trade in 2020 is 25% smaller compared to 2019. By the end of 2021, the electronic order book on the GPW recorded 37.2 million trades worth 70 billion zlotys (€15.22 billion), with an average turnover value per trade of €1,882.

Data from KNF allowed us to further document the increase in retail investing appetite: the brokerage sector (brokerage houses and offices) recorded a significant increase in the number of client accounts in 2020, exceeding the previous 13-year high of 2017: some 144,000 new accounts were created during the first year of the pandemic, representing a 8% increase.

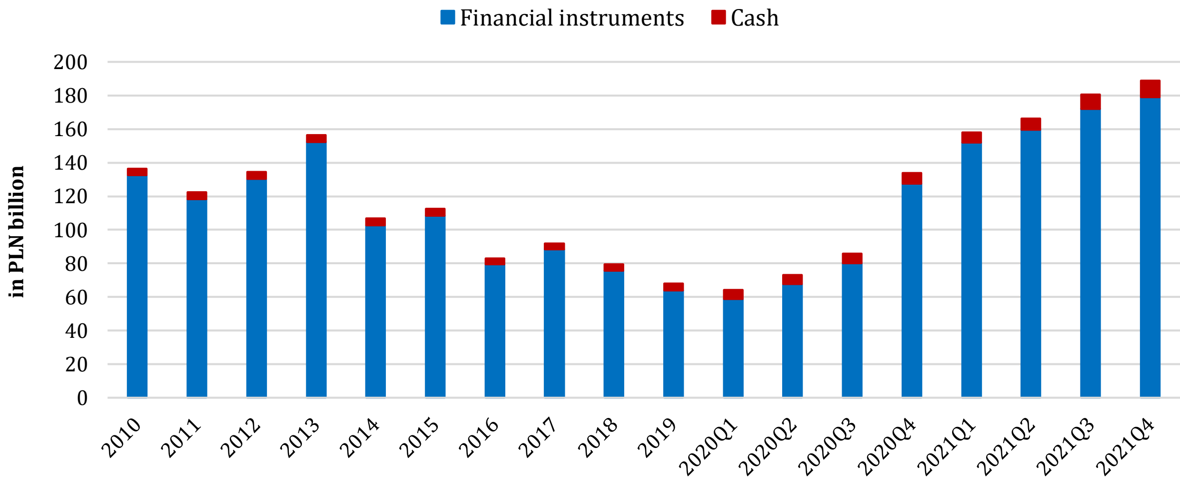
Chart 36. Number of client accounts in the Polish brokerage sector



Source: BETTER FINANCE own composition based on KNF Reports on the financial situation of brokerage houses, 2008-2020;[89]

Most importantly, the value of capital under the custody of brokerage houses grew significantly in the period of observation: from a total of PLN 68.1 billion at the end of 2019 to PLN 133.85 billion and PLN 189 billion for the fourth quarters of 2020 and 2021. As apparent from Chart 34 below, the vast majority of this capital is held as financial instruments, and only marginally as cash.

Chart 37. Polish brokerage houses' clients' capital under custody



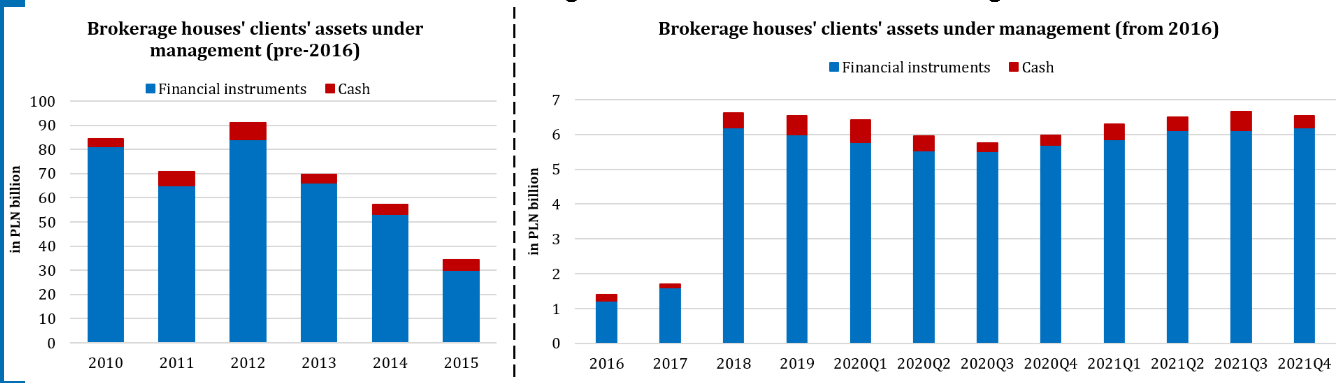
Source: BETTER FINANCE own composition based on KNF data 2010-2022

In terms of assets managed by financial brokers, the situation is slightly different, but continues to confirm the trend: Polish retail investors increased their exposures to financial instruments, but the decreases in market value of financial instruments throughout the first half of 2020 determined a contraction in the aggregate value of assets managed. By the second half of 2021, the total value of

[89] We could not find the relevant data for the years 2010, 2011, 2014.

financial instruments and cash invested by clients with brokers in Poland exceeded the previous highs of 2018 and 2019 (PLN 6.65 billion, or €1.47 billion).

Chart 38. Polish brokerage houses’ clients’ assets under management

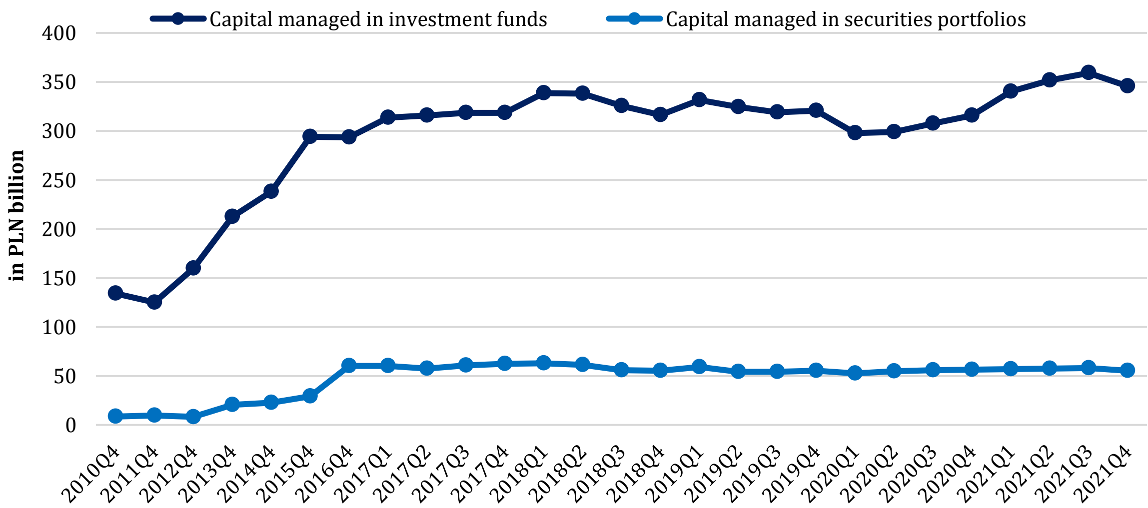


Source: BETTER FINANCE own composition based on KNF data, 2010-2022

Chart 35 above is divided in two parts in order to reflect the two phases of the market for portfolio management by brokerage houses in Poland: throughout 2016, most brokerage houses transferred the capital of individual clients to investment or asset management companies, which explains the drop from the total PLN 34.3 billion in 2015 to PLN 1.4 billion (-95% decrease).

Polish individual investors have become more active with indirect investing as well. Data from KNF on the total assets managed by investment companies (TFIs) shows a 12% increase in the value of investment fund units and a 5% increase in portfolio management.

Graph 39. Polish investment companies' assets



Source: BETTER FINANCE own elaboration based on KNF data, 2010-2021

All in all, the asset management industry in Poland reached a 12-year high (end 2010 to end 2021) in both types of accounts (fund units and portfolio management).

Polish retail investors’ contrarian nature has been highlighted again in the first quarter of 2022 during the market volatility triggered by the outbreak of the war in Ukraine. According to a local brokerage house, “*violent disturbances in financial markets also cause increased activity of retail clients*”, further drawing analogies with the COVID-19 outbreak: some brokerage houses saw a daily average of 100% new account openings since the start of the war.[90]

The data aggregated above confirm BETTER FINANCE's findings for the other jurisdictions in Poland as well: the increase in retail trading and retail investor participation rate in capital markets since the beginning of 2020 is consolidating into a longer-term trend as non-professional savers exhibit much more interest for equity and fund investing, most notably with many leaving behind the "home bias" and buying foreign shares and units as well.

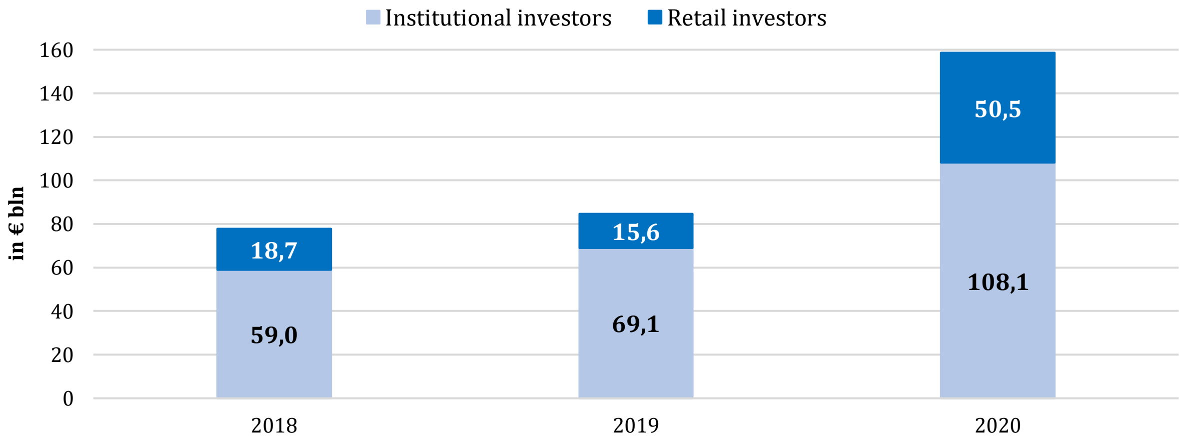
Portugal

According to the report[91] of the Portuguese Securities Markets Authority (Commissão do Mercado de Valores Mobiliares), starting with the second half of 2018 a decreasing trend in the number of buy and sell orders has been observed, which continued until the end of 2019 and stagnated almost a year and a half around €0.8 billion for buy orders and slightly above €0.8 billion for sell orders (for resident retail investors), which means that Portuguese households decreased their exposure to securities (equities, bonds, derivatives) over that period.

The trend has been reversed starting with 2020, when a spike in both buy and sell order has been recorded, reaching (on the buy side) €1.8 billion by June and €1.6 billion by the end of 2020. On the other hand, the sell side recorded a similar steep increase, albeit at a lower level (€1.6 billion by June and the same in December) which amounts to a significant net increase in the exposure of Portuguese resident retail investors to listed securities.

With a particular focus on equities, we can observe that resident retail investors in Portugal divested €100 million in the third quarter of 2019 but regained their positions with positive flows to listed equities of €150 million and €200 million in the first and second quarters of 2020.

Chart 40. Value of received orders* by investor type in PT



Source: Own elaboration based on CMVM annual report (2021)[92]

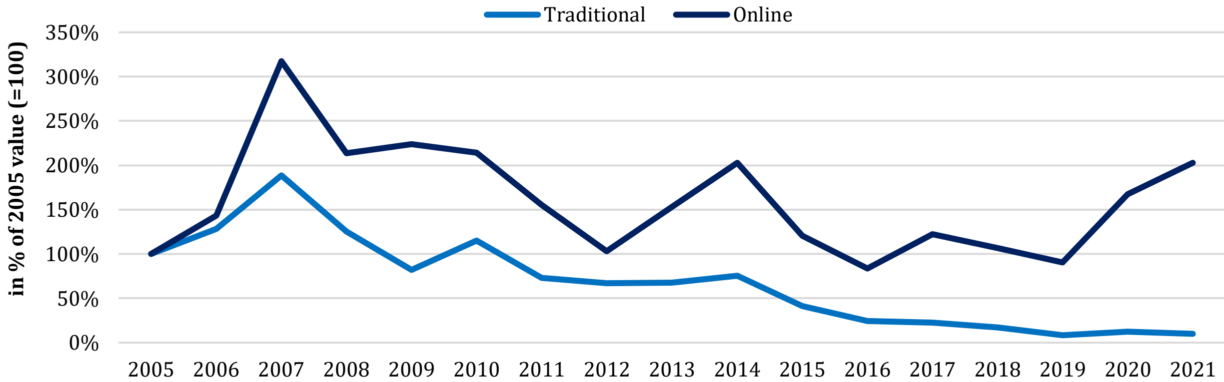
[90] Przemysław Tychmanowicz, Zmienność znów działa jak magnes na inwestorów indywidualnych (parkiet.com, 13 March 2022) available at: https://www.parkiet.com/analizy-rynkowe/art35854581-zmiennosc-znow-dziala-jak-magnes-na-inwestorow-indywidualnych.

[91] Portuguese Financial Supervisory Commission Report on Securities Markets for 2021, Commissão do Mercados de Valores Mobiliares, *Relatorio Sobre Os Mercados de Valorios Mobiliarios* (June 2021), p. 83, available at: https://www.cmvm.pt/pt/EstatisticasEstudosEPublicacoes/Publicacoes/relatorio_valores_mobiliarios/Documents/CMVM-Relat%C3%B3rio%20sobre%20os%20Mercados-2020-23.07.21.pdf.

[92] Portuguese Financial Supervisory Commission Report on Securities Markets for 2021, Commissão do Mercados de Valores Mobiliares, *Relatorio Sobre Os Mercados de Valorios Mobiliarios* (June 2021), p. 83, available at: https://www.cmvm.pt/pt/EstatisticasEstudosEPublicacoes/Publicacoes/relatorio_valores_mobiliarios/Documents/CMVM-Relat%C3%B3rio%20sobre%20os%20Mercados-2020-23.07.21.pdf.

Financial intermediaries in Portugal saw a significant increase in the receipt of orders (buy/sell) from investors in 2020. Institutional investors sent €39 billion worth more orders compared to 2019 (56.4% increases year-on-year) and retail investors €35 billion more, representing a 324% increase compared to 2019. By type of receiving channel, distinguishing between traditional, online, and other channels, the highest increase in the value of orders was recorded for public and private debt instruments, reaching €101.4 billion in only the first quarter of 2021, which is almost as much as the entire 2020 and 48% more compared to 2019. The same was observed for equity instruments, the first three months of this year aggregating €1.5 billion more in received orders from institutional and retail investors than the whole of 2020, representing a 85% increase compared to the whole of 2019.

Graph 41. Equity orders by receiving channel: evolution since 2005 in PT

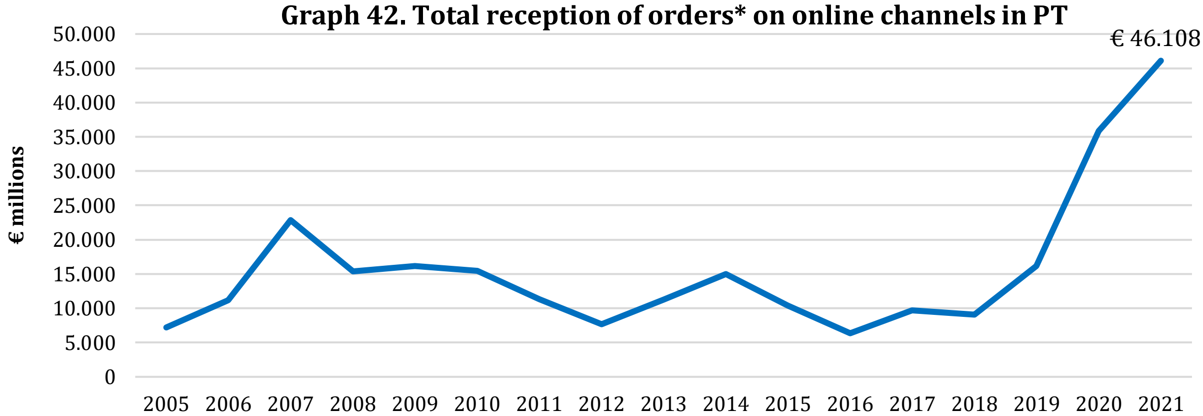


Source: BETTER FINANCE own elaboration based on CMVM data (2022)[93]

Focusing in the preference of execution channels, we can observe a stronger tendency of investors for online intermediaries compared to traditional ones. While the volumes of received orders are still considerably higher for traditional channels (representing on average 70% of all orders), we can see that the volumes have been constantly decreasing since 2015 to almost a tenth of the 2005 value (€6.3 billion vs €50.3 billion). On the other side, online channels have grown much more, relative to the starting value of 2005 (€7.2 billion), reaching €13.8 billion by the end of March 2021.

The research team could not obtain aggregated trading data (volume, number of transactions, value) from the Portuguese securities exchange, thus we cannot evaluate the retail trading behaviour of Portuguese investors in the same way as for other countries.

Graph 42. Total reception of orders* on online channels in PT



Source: BETTER FINANCE own elaboration based on CMVM data (2021);[94] *Equity and bond (public and private debt) orders only

[93] See Commissão do Mercados de Valores Mobiliares, *Estadísticas: Series Longas*, available at: https://www.cmvm.pt/pt/Estatisticas/SeriesLongas/Pages/default.aspx.

[94] See Commissão do Mercados de Valores Mobiliares, *Estadísticas: Series Longas*, available at: https://www.cmvm.pt/pt/Estatisticas/SeriesLongas/Pages/default.aspx.

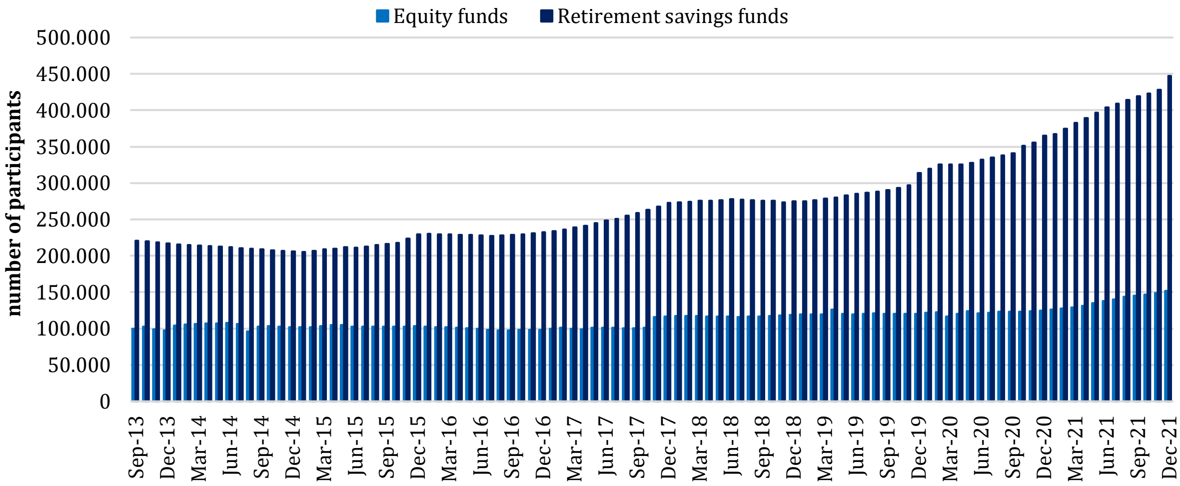
In overall, online financial intermediaries in Portugal saw a considerable increase in the value of orders received over 2020 and 2021, exceeding the previous high (2007, €22.8 billion) by €16.4 billion at the end of the first quarter of 2021.

The CMVM also publishes data on collective investment schemes in Portugal, of which the research team focused on equity and retirement savings funds as these make for the largest categories by number of participants.

The number of participants in Portuguese equity funds has been quite stable around 100,000 between 2013-2017, after which a period of increase followed up to April 2019 (126,000), then dropping to 120,000 by the end of 2019. Similar to buy and sell orders on listed securities, 2020 saw a steep increase in the number of equity fund participants in Portugal, reaching an all time high by the end of 2020 with almost 129,000 investors recorded. In retirement savings funds, which hold the largest share among all funds with almost a third of participants, have recorded much steeper increases over the course of last year.

From around 313 thousand investors in December 2019, the pandemic-related restrictions and reduced spending – which triggered an increase in savings among Portuguese households – induced non-professional savers to invest more into retirement savings plans. By the end of 2020, retirement savings funds in Portugal saw an additional 51 thousand new subscribers, which continued to grow in the first quarter of this year up to a total of 382.8 thousand, representing a 22% increase compared to the end positions of 2019.

Chart 43. Number of participants in PT equity and retirement savings funds

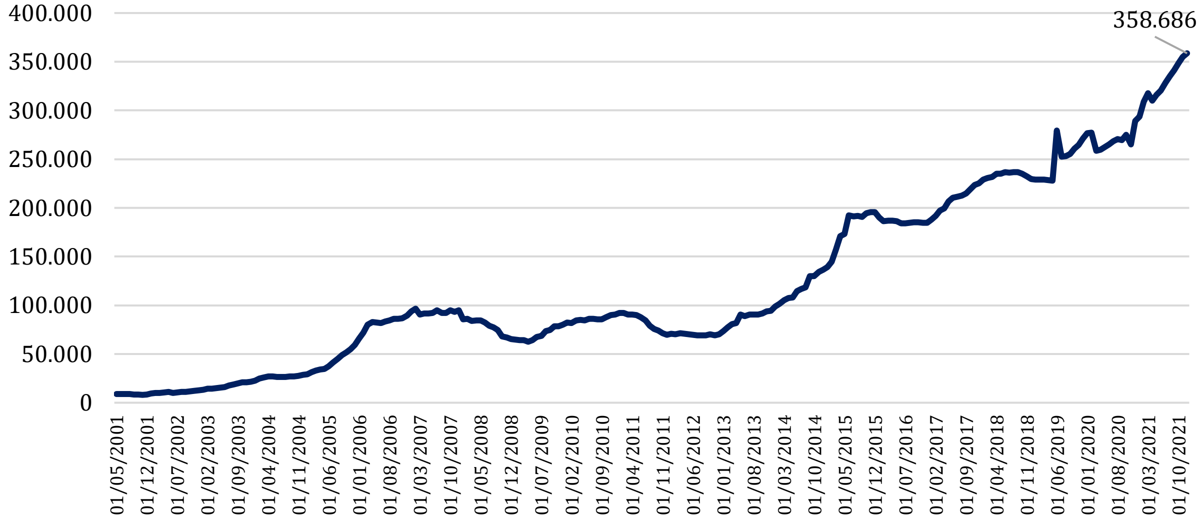


Source: Own composition based on CMVM data (2021)[95]

The number of Portuguese investors in foreign collective investment vehicles (UCIs) has also grown considerably over the past 20 years, dropping however during the market turmoil phase of March-April 2020 (from 277 thousand at the end of February to 259 thousand by the end of April). However, in overall, 87 thousand new investors bought units in foreign-domiciled investment funds in Portugal throughout the last two years, marking a new historical high at the end of December 2021 with a total of 358,686 clients.

[95] See Commissão do Mercados de Valores Mobiliares, *Estadísticas: Series Longas*, available at: https://www.cmvm.pt/pt/Estatisticas/SeriesLongas/Pages/default.aspx.

Chart 44. Number of PT investors in foreign UCIs



Source: Own composition based on CMVM data (2022)[96]

[96] See Commissão do Mercados de Valores Mobiliares, *Estadísticas: Series Longas*, available at: https://www.cmvm.pt/pt/Estatisticas/SeriesLongas/Pages/default.aspx.

Romania

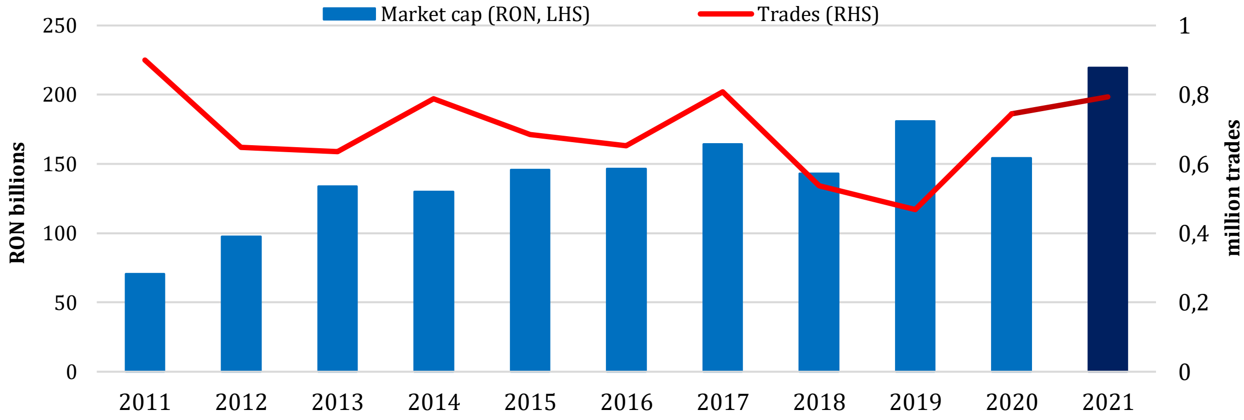
A new, distinct appetite for investing in capital markets – both directly and indirectly – has been observed among Romanian households. Over the long-term, the market and savings behaviour of Romanian households have been traditionally defined by an overreliance on banking products.[97]

Table 45. Assets of financial corporations in Romania*						
	1995	2000	2005	2010	2015	2020
Banks	67.9%	62.6%	58.6%	60.7%	57.5%	56.1%
Funds	0%	3.8%	1.0%	2.2%	6.0%	4.0%
Insurers	0.6%	1.0%	2.1%	2.8%	2.4%	2.5%
Pension funds	0%	0%	0%	0.8%	3.7%	7.7%

Source: Own composition based on Eurostat data; *data as a % of total assets of financial corporations

However, recently the trend started to change in favour of capital market investments, particularly for stocks and investment funds. Data from the Bucharest Securities Exchange (BSE) shows also significant increases in the number of trades, volume, and market capitalisation of Romanian listed companies on the main market segment:

Graph 46. Increased equity trading activity on the Romanian Stock Exchange



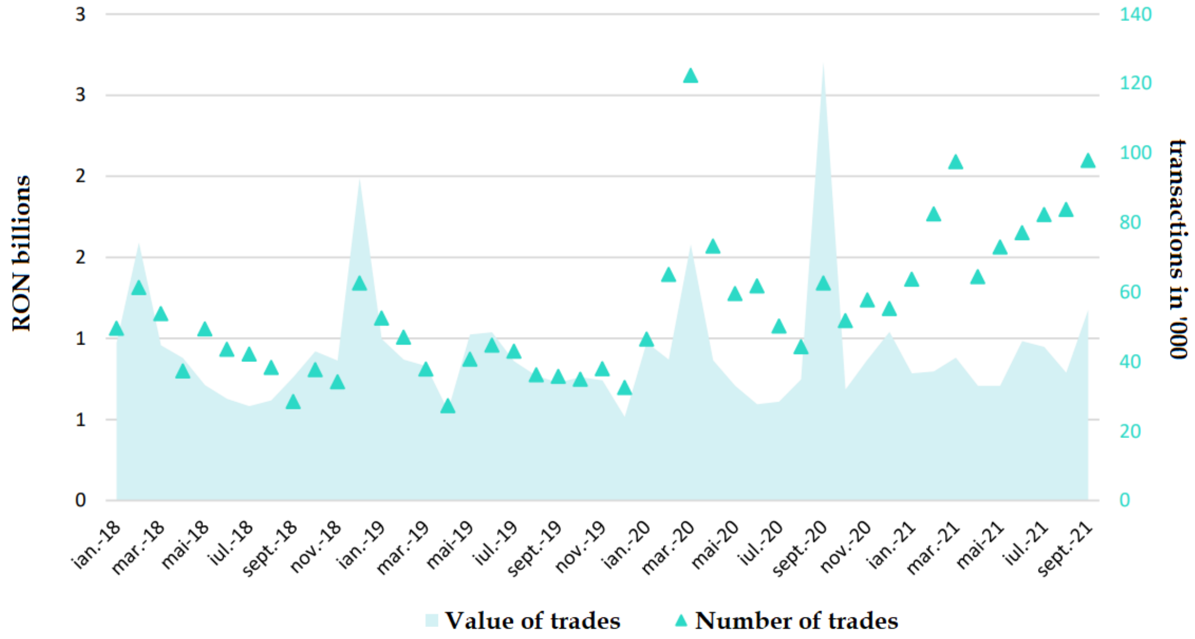
Source: Own composition based on data from Bucharest Stock Exchange (bvb.ro), 2021

The market capitalisation of Romanian listed companies reached a historical record in 2021, by a large difference to the previous record of 2018, totalling RON 219.5 billion (€44.4 billion). Despite the drop in 2020 of the Romanian BET index (-1.7%, which later picked up in 2021 recording a +40% nominal performance), the new wave of Romanian retail investors marked a significant increase in the number of trades on the main segment of the Bucharest stock market: from just below half a million trades in 2019 it jumped to 744.5 thousand in 2020 (+59%) and further increased in the course of 2021 to 793 thousand (+70%).[98]

The report of the Romanian Financial Supervisory Authority on the evolution of securities markets in Romania in 2021 shows, based on data from the BSE, the spike in both the number and value of securities trades in Romania between February 2020 and March 2020 which grew significantly again between August and September 2020. The volume recorded was lower compared to the previous highs (February and December 2018), which is representative of retail investors which trade much smaller amounts compared to institutional ones.

[97] See also the analysis prepared by Ramin Shojai, Michel Noel, Yibin Mu, Michael Borish, Mohamed Ramzi, Roshdi Ismail, Alexandra Drees-Gross, Anna Sukiasyan, Steen Byskov, Sorin Teodoru, *Capital Markets and Non-Bank Financial Institutions in Romania: Assessment of Key Issues and Recommendations for Development* (2005) World Bank Working Paper no. 45.
[98] Own calculations based on data from the Bucharest Stock Exchange, see bvb.ro.

Chart 47. Evolution of the volume and number of securities trades on the RO BSE, monthly data



Source: Romanian FSA based on BVB.ro;[99] **Note:** the image has modifications for translation purposes

Romanian capital markets marked a historical high in 2021, with multiple records observed: the total value of trades (across all financial instruments) exceeded €4 billion and the daily average turnover stood at €16.1 million, exceeding 2020 values by +9.5% and 8.2% respectively, mostly due to the BSE which consolidated its role as a funding platform for the Romanian economy, with 23 IPOs recorded in 2021.[100] To further attract retail investors to the stock market and ameliorating the investing process, the BSE supported a legislative proposal aimed at simplifying the tax regime for individual investors, which was passed by the Romanian Parliament and will enter into force on 1 January 2023. The new law takes the administrative burden off retail investors by obliging intermediaries to calculate, report, and withhold tax on capital gains, which will incentivise long(er)-term investments: a 3% capital gains tax will be applied for holdings less than 1 year, which reduces to 1% for investments over 1 year.[101]

Although the data presented above does not discern between institutional and individual ("retail") investors, the reduced (smaller) average value of trades in 2020 and 2021, compared to previous years, is an indicator of a stronger presence of non-professional trade flows.

At the same time, BSE announced that 2020 represented a historical record in terms of liquidity: the anual value of trades reached RON 73.4 billion (€15.06 billion), representing a 25% increase compared to 2019, and the daily value of trades averaged RON 18.3 billion (€3.75 billion). Further in 2021, the total annual value of trades reached RON 20 billion (€4 billion), with an average daily value of RON 79.4 million

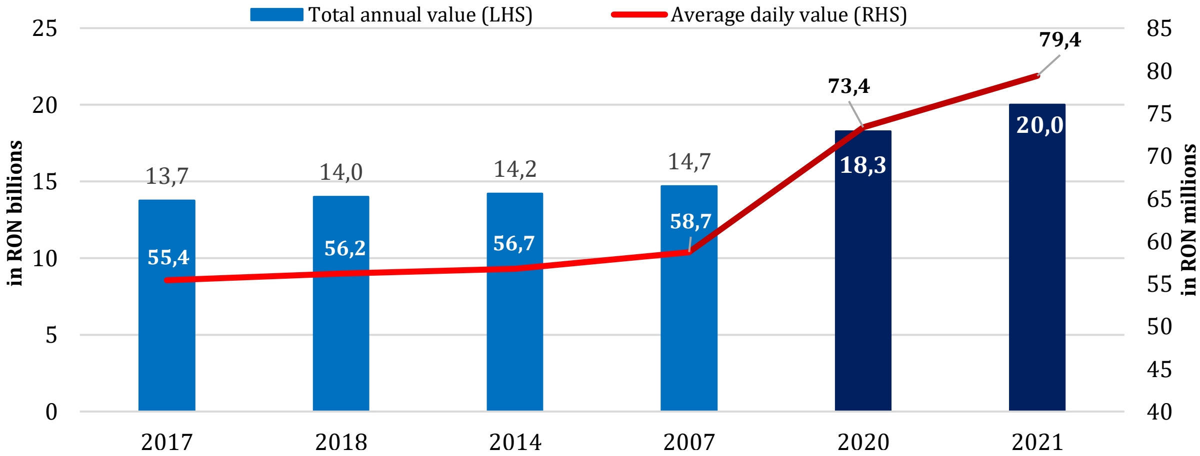
[99] See Autoritatea de Supraveghere Financiară, *Evoluţia Pieţei de Capital din România: T3 2021* (2022), page 30, Graph 36, available at https://www.bvb.ro/press/2021/BVB_Raport%20lunar%20decembrie%202020.pdf : https://www.asfromania.ro/uploads/articole/attachments/61e53ac9f1ddd033288431.pdf.

[100] Press release of the Bucharest Stock Exchange, *BVB atinge noi recorduri in 2021. Tranzactiile totale depasesc pentru prima data pragul de 20 miliarde lei. Piata de capital creste cu 40 procente si ajunge la noi maxime iar valoarea companiilor romanesti listate se afla la cel mai ridicat nivel din istorie* (19 January 2022), available at: https://bvb.ro/AboutUs/MediaCenter/PressItem/BVB-atinge-noi-recorduri-in-2021.-Tranzactiile-totale-depasesc-pentru-prima-data-pragul-de-20-miliarde-lei.-Piata-de-capital-creste-cu-40-procente-si-ajunge-la-noi-maxime-iar-valoarea-companiilor-romanesti-listate-se-afla-la-cel-mai-ridicat-nivel-din-istorie/5546.

[101] Press Release of the BSE, Simplificarea impozitarii investitorilor individuali pe piata de capital - initiativa legislativa sustinuta de BVB - a fost adoptata de Camera Deputatilor (20 April 2022) available at: https://bvb.ro/AboutUs/MediaCenter/PressItem/Simplificarea-impozitarii-investitorilor-individuali-pe-piata-de-capital-initiativa-legislativa-sustinuta-de-BVB-a-fost-adoptata-de-Camera-Deputatilor/5637.

(€16.1 million), as Graph 44 below shows, marking another historical record for the Bucharest Stock Exchange.

Graph 48. Top 5 best years in terms of liquidity on the RO BSE



Source: Own composition based on BVB.ro data[102]

With the exception of the 2003-2006 period, only a small share of Romanian households participated (both directly and indirectly) in capital markets as the savings methods most common were:

- for voluntary savings, banking products (deposits, term deposits, etc);
- private, occupational pension funds as mandatory retirement savings.[103]

In addition to opening brokerage accounts and investing, Romanian households also started to invest more into investment funds. According to the Romanian Association of Fund Managers (AAF), the number of fund participants in UCITS and AIFs in 2020 grew compared to 2019 up to 439,646, the highest in its history.[104]

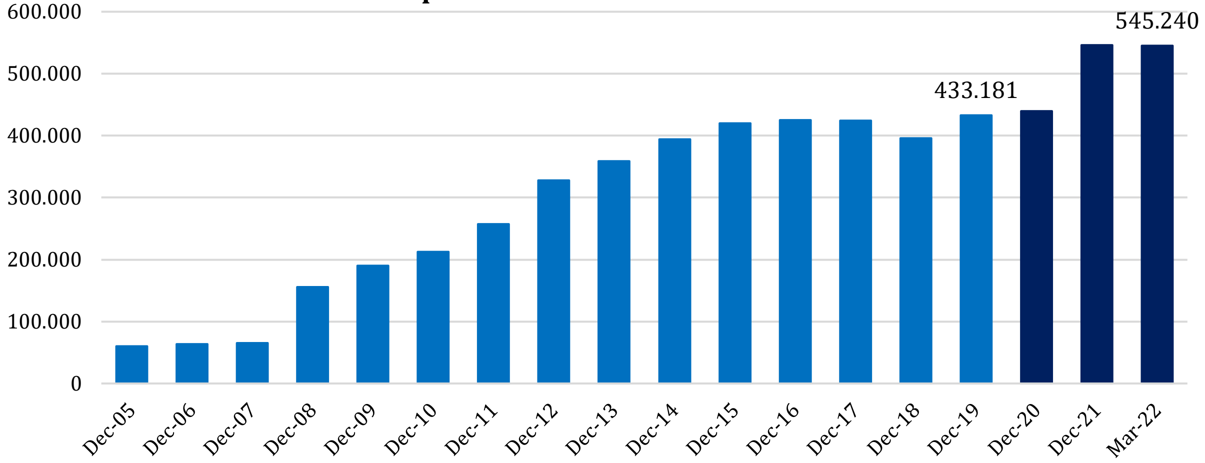
Data from the AAF shows significant increases in the number of new fund investors in 2020 and 2021, also reaching a 17-year record by December 2021 with 112,971 new clients, representing a 26% increase.

[102] Bursa de Valori Bucureşti, *Raport Lunar Decembrie 2020* (December 2020) BVB, p. 2, available at: https://www.bvb.ro/press/2021/BVB_Raport%20lunar%20decembrie%202020.pdf; Bursa de Valori Bucureşti, *Raport Lunar Decembrie 2021* (December 2021) BVB, p. 2, available at: https://bvb.ro/press/2022/BVB_Raport%20lunar%20decembrie%202021.pdf.

[103] In this sense, see BETTER FINANCE's Report on the Real Return Long-term and Pension Savings (2021 edition), the chapter about Romania, available at: https://betterfinance.eu/wp-content/uploads/The-Real-Return-Long-Term-Pension-Savings-Report-2021-Edition.pdf.

[104] See Adrian Panaite, '*În pofida șocului pandemic negativ pentru industria fondurilor de investiții, anul 2020 a adus mai mulți investitori indirecți pe bursă. Numărul de investitori în fonduri, cel mai mare din istoria industrie*' (17 February 2021, profit.ro) accessed 30 October 2021, available at: https://www.profit.ro/povesti-cu-profit/financiar/piata-de-capital/pofida-socului-pandemic-negativ-industria-fondurilor-investitii-anul-2020-adus-multi-investitori-indirecti-bursa-numarul-investitori-fonduri-cel-mare-istoria-industriei-19986172.

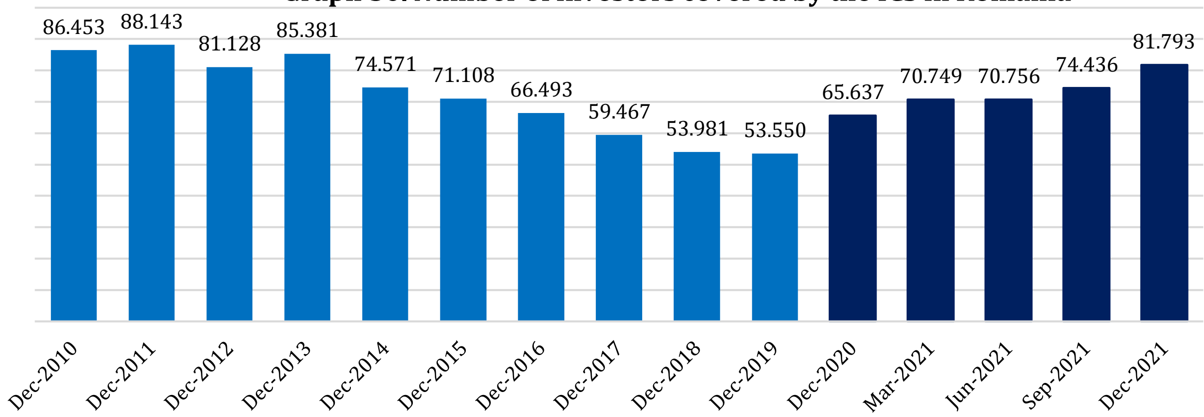
Graph 49. Number of fund investors in Romania



Source: BETTER FINANCE own composition based on AAF.ro data

At the same time, the number of investors covered by the national investor compensation scheme (ICS) has exceeded the level of 2016 (66,493), growing by 22.6% in 2020 and 52.7% in 2021 (compared to 2019).

Graph 50. Number of investors covered by the ICS in Romania

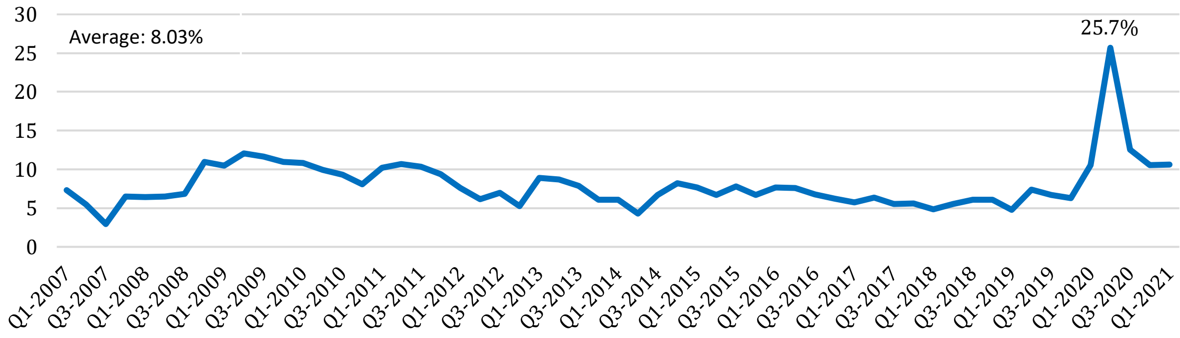


Source: Own composition based on ICS data, annual reports up to 2021; portfolios smaller than €20,000;

Spain

The gross saving rate of Spanish households grew exponentially in the first and second quarter of 2020, from 6.27% (of the gross disposable income) to 25.68% by the end of June. This, coupled with the rise of online investment platforms (neobrokers, robo-advisors) gave a significant boost for the participation of Spanish savers in capital markets.

Chart 51. ES households' gross saving rate



Source: Own composition based on OECD data, 2021

According to the Spanish securities exchange, 2020 brought more households to capital markets as their ownership share of listed equities reached 17.1%, breaking a 5-year decreasing trend. Albeit being the second lowest ownership rate of the past 29 years, there seems to be a new momentum among Spanish "retail" investors on capital markets.[105]

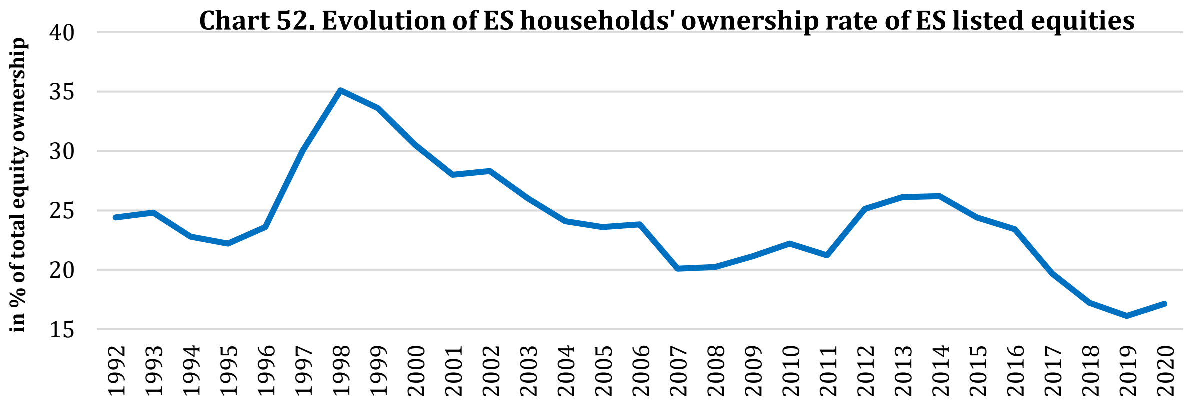


Chart 52. Evolution of ES households' ownership rate of ES listed equities

Source: BME.es[106]

The latest household financial survey of the Bank of Spain showed an increasing trend in the number of individual, non—professional savers holding Spanish listed equities: between 2008-2017, about 400,000 households gained direct exposure to Spanish listed equities, with the latest 50,000 in 2020 being the highest number recorded in the past 19 years, exceeding the previous high of 2005. As a percentage of total households in Spain, the increase is steeper, reaching 11.6% in 2017.[107]

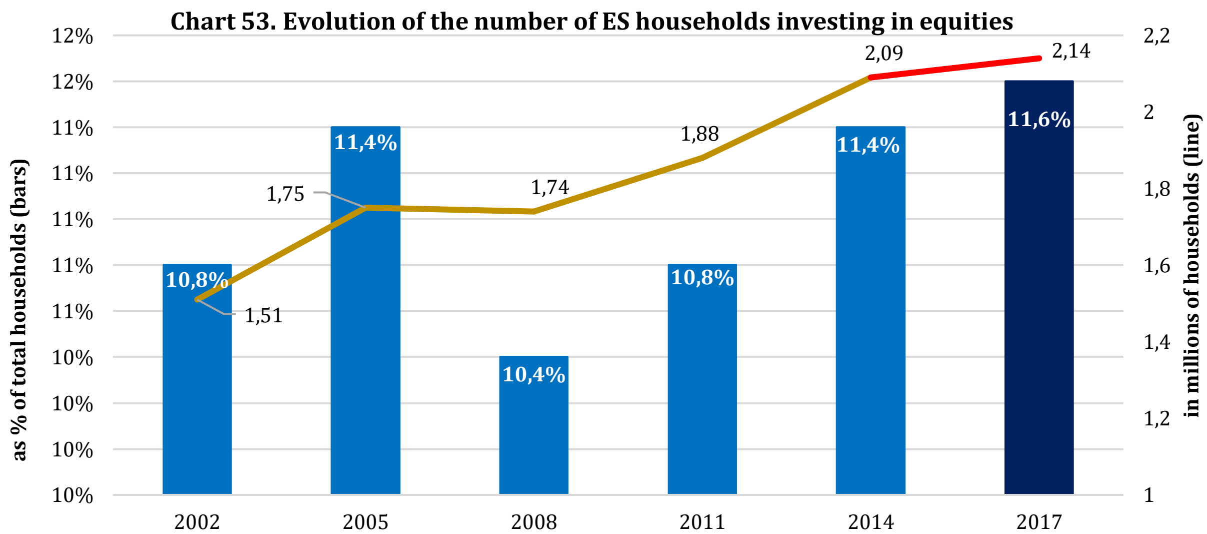


Chart 53. Evolution of the number of ES households investing in equities

Source: BME.es based on data from BdE and INE, 2020

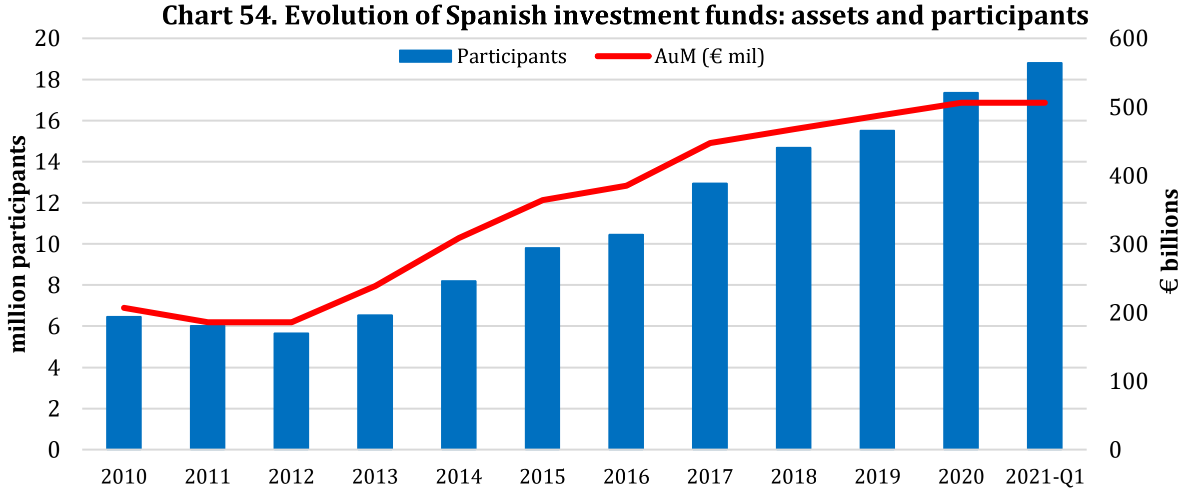
[105] Bolsas y Mercados Españoles, La Inversión de las Familias en la Bolsa Española Sube Hasta el 17,1% Tras cinco Años de Descensos – Informe Anual Sobre la Propiedad de las Acciones Cotizadas (July 2021) BME Research & Analysis, available at: https://www.bolsasymercados.es/esp/Estudios-Publicaciones/Documento/5479_La_inversi%C3%B3n_de_las_familias_en_la_Bolsa_espa%C3%B1ola_sube_hasta_el_17_1__tras_cinco_a%C3%B1os_de_descenso.

[106] Bolsas y Mercados Españoles, La Inversión de las Familias en la Bolsa Española Sube Hasta el 17,1% Tras cinco Años de Descensos – Informe Anual Sobre la Propiedad de las Acciones Cotizadas (July 2021) BME Research & Analysis, available at: https://www.bolsasymercados.es/esp/Estudios-Publicaciones/Documento/5479_La_inversi%C3%B3n_de_las_familias_en_la_Bolsa_espa%C3%B1ola_sube_hasta_el_17_1__tras_cinco_a%C3%B1os_de_descenso, p. 2.

[107] Ibid, p. 7.

Although we can't extrapolate the existing data to get an estimation of what the situation was in 2020 or 2021, we believe that a similar trend observed across EU jurisdictions (and rest of the world) was experienced in Spain as well since, traditionally, Spanish "retail" investors were much more invested in listed equities compared to the EU average.

Chart 54. Evolution of Spanish investment funds: assets and participants



Source: Own composition based on BME data from CNMV and INVERCO[108]

Spanish investment funds[109] observed a steady growth, both in participants and assets under management, since 2012. The growth rate in 2020 and the first quarter of 2021 increased as 1.8 million and 1.4 million, respectively. New participants (investors/unitholders) were recorded compared to 2019. Still, we cannot discern whether and how many of these new investors are "retail" and, furthermore, Spanish residents – as the data aggregates as well funds of funds – but we can reasonably assume, due to the high numbers, that most unitholders are indeed individual, non-professional savers.

Sweden

In Sweden, an equity investment culture can be observed as early as 1996 by looking at the detailed financial balance sheets (financial savings) of Swedish households: from a distribution of the portfolio mostly into banking products (currency and deposits, 23%) and shares (both SE listed equities and foreign shares, 19%), by the last quarter of 2021 Swedish private investors held the largest share of their savings into equities (22%) and occupational pensions (20%), and halved their insurance and banking investments (7% and 12% compared to 14% and 23%).

Table 55. Detailed financial balance sheets of SE households

in % of total	Currency & deposits	Bonds	Equity	Investment fund shares	Insurances	Occupational pensions	Premium pensions
1996Q4	23%	8%	19%	8%	14%	15%	1%
1999Q4	13%	4%	23%	14%	15%	17%	2%
2005Q4	12%	2%	19%	10%	11%	23%	4%
2010Q4	14%	2%	18%	8%	11%	21%	5%
2015Q4	14%	1%	17%	8%	9%	21%	8%
2019Q4	13%	1%	19%	9%	7%	21%	10%
2020Q1	15%	1%	17%	8%	7%	22%	9%
2020Q2	14%	1%	18%	9%	7%	22%	10%
2020Q3	14%	1%	19%	9%	7%	21%	10%
2020Q4	13%	1%	19%	9%	7%	21%	10%
2021Q1	13%	0%	20%	9%	7%	20%	10%

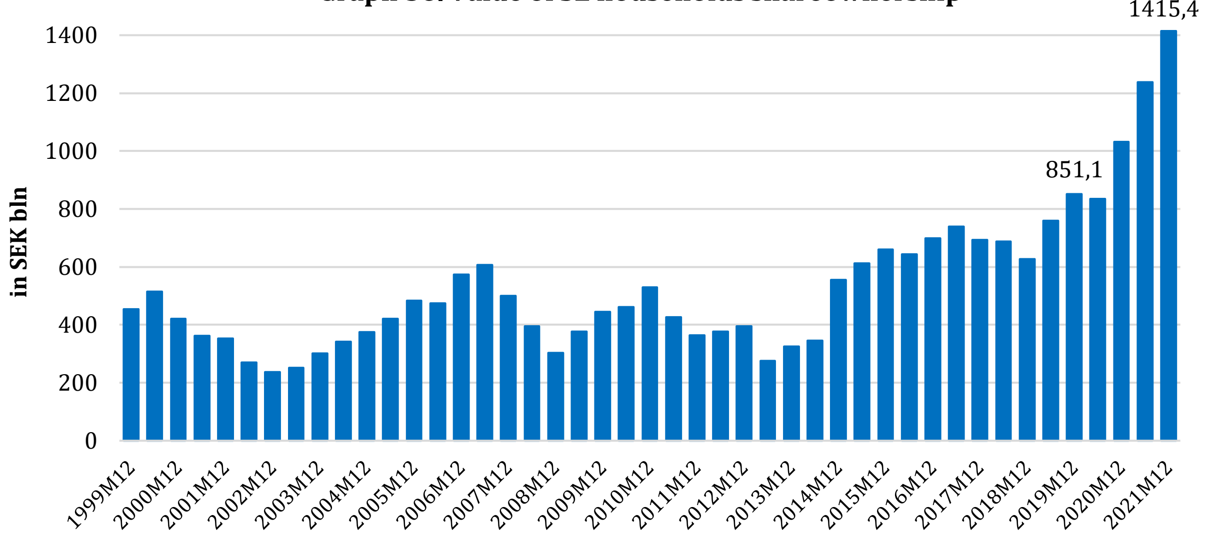
[108] Bolsas y Mercados Españoles, *Estadísticas* (accessed 28 October 2021) available at: https://www.bolsasymercados.es/esp/Estudios-Publicaciones/Estadisticas.
[109] Data excluding real estate investment funds.

2021Q2	13%	0%	21%	10%	7%	20%	10%
2021Q3	13%	0%	20%	10%	7%	20%	10%
2021Q4	12%	0%	22%	10%	7%	20%	11%

Source: Official Statistics of Sweden
(https://www.statistikdatabasen.scb.se/pxweb/en/ssd/START__FM__FM0105/FM0105T01/table/tableViewLayout1/)

In the same vein, the value of Swedish households' equity ownership increased considerably in 2020 and 2021. Whilst partly attributable to the strong performance of local and foreign equity indices in 2021, the value of shares owned by individual, non-professional Swedish investors grew by 66% and reached a 21-year high by the end of 2021 at SEK 1,415.4 billion (€138 bln).

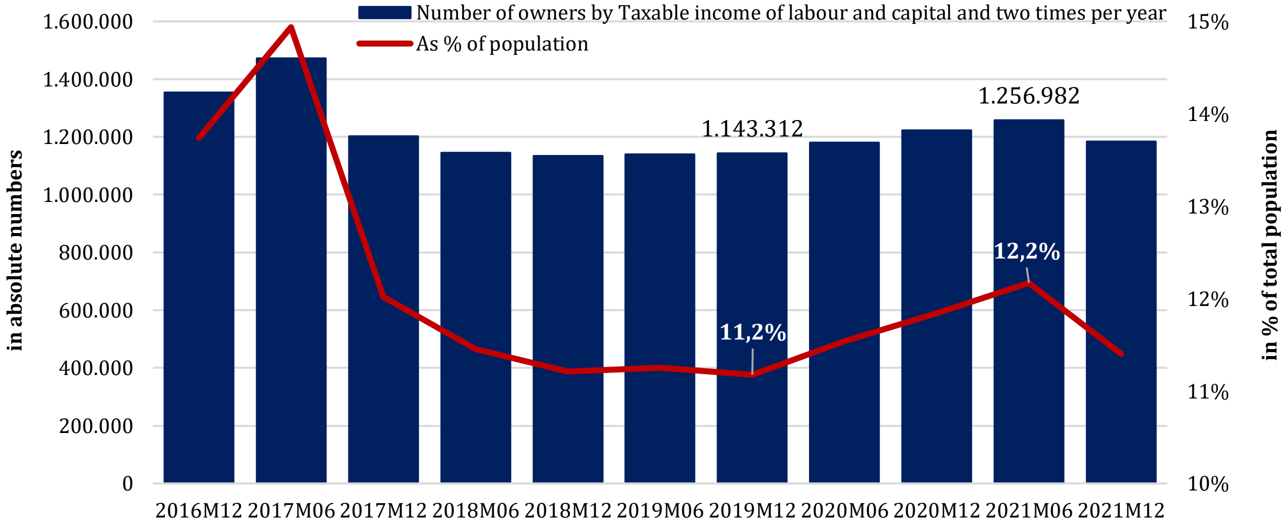
Graph 56. Value of SE households shareownership



Source: Official Statistics of Sweden
(https://www.statistikdatabasen.scb.se/pxweb/en/ssd/START__FM__FM0201__FM0201B/HushallAktieAgarMNKR/table/tableViewLayout1/)

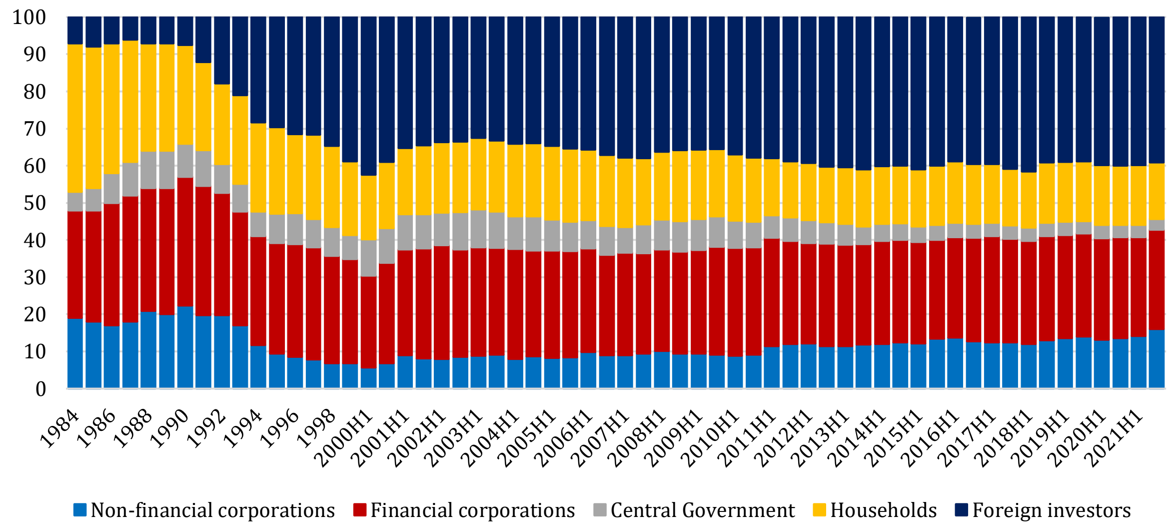
The data aggregated by Official Statistics of Sweden also comprise the number of individual shareowners in Sweden. Although the highest value in the past 7 years was observed for the first half of 2017, there was a considerable increase since 2019: by the end of the first half of 2021, 113,670 new shareholders were registered with tax authorities, representing a 1% increase relative to the total population of Sweden. Put differently, by June 2021, 12.2% of the Swedish population owned shared in SE listed and foreign companies.

Chart 57. Number of individual shareholders in SE



Source: Official Statistics of Sweden
(https://www.statistikdatabasen.scb.se/pxweb/en/ssd/START__FM__FM0201__FM0201B/HushallAktieAgarInk/table/tableViewLayout1/)

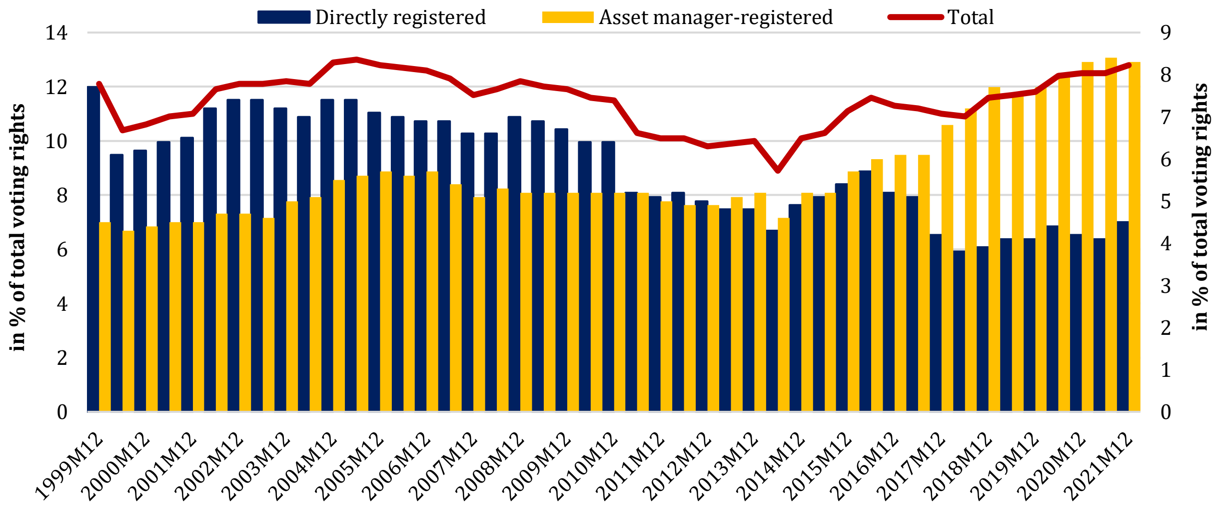
Chart 58. Ownership structure of SE equities



Source: Official Statistics Sweden
(https://www.scb.se/en/finding-statistics/statistics-by-subject-area/financial-markets/shareholding-statistics/shareholders-statistics/pong/tables-and-graphs/shareholder-structure-in-companies-quoted-on-swedish-marketplace/)

Looking at the ownership structure of Swedish listed companies, we can observe that – within the domestic sector – Swedish households represent the second largest group, owning 16.1% of the total equity. We can also observe a growing appetite of foreign investors for Swedish share as their ownership grew constantly since 2003 (32.4%) to reach 39% by the end of 2021. The largest domestic investor group is represented by financial corporations, owning 26.7% of SE equities at the end of 2021. According to a report by Euroclear Sweden, an increase for investing shares was observed already in 2018, when the number of individual equity owners among non-professional savers, particularly the younger age cohorts, grew compared to 2017.[110]

Chart 59. Share of voting rights of SE individual shareholders



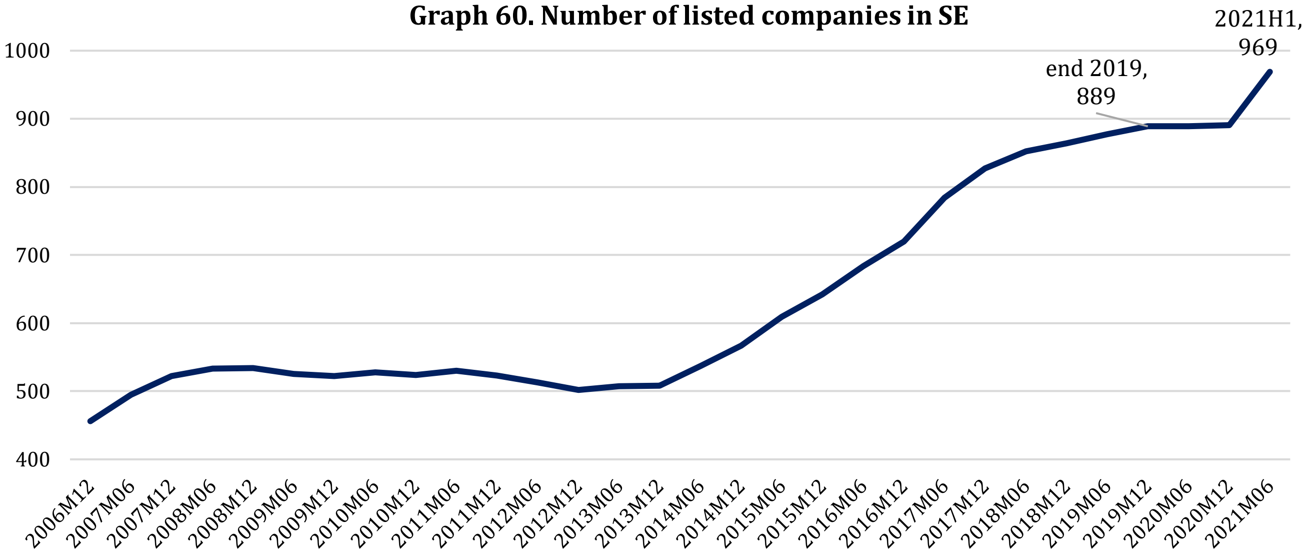
Source: Official Statistics Sweden
(https://www.statistikdatabasen.scb.se/pxweb/en/ssd/START__FM__FM0201__FM0201A/AktieAgarVP/table/tableViewLayout1/)

Looking at the distribution of voting rights in Sweden, focused on the "retail" sector (Swedish households), the number of votes in Swedish listed equities has been fairly stable in the past 21 years,

[110] Euroclear, *Shareholding in Sweden in 2018* (2018) Euroclear, available at: https://www.euroclear.com/dam/ESw/Brochures/Documents_in_English/The_Shareholding_in_Sweden_2018.pdf.

fluctuating between 10% and 13%. Although the highest value was observed at the end of 2004 (12.9%), the two years of the pandemic brought an increase of 1% (from 11.8% to 12.8%). In terms of exercising voting rights, we can observe an inverse trend between direct ownership and ownership through asset-managers: while at the end of 2010 most voting rights were directly-registered with Swedish individual shareowners (6.4% vs. 5.2%), the proportions have turned around and now directly-registered votes account for 4.5% and almost double for asset-manager registered (8.3%).

Graph 60. Number of listed companies in SE



Source: Official Statistics of Sweden (https://www.statistikdatabasen.scb.se/pxweb/en/ssd/START__FM__FM0201__FM0201D/NoteradeAntalBolag/table/tableViewLayout1/)

In terms of going public on the Swedish stock exchange, Sweden has become a very popular jurisdiction for companies, especially SMEs. Data from the official statistical bureau of Sweden shows that the number of listed companies on the Swedish stock exchange almost doubled since the end of 2013, raising from 508 to 969 by the second half of 2021. This growth is all the more significant since in the period between 2006 and 2013 the number of listed companies in Sweden has been fairly stable and actually decreased compared to the previous high of 2007.

According to a publication of the World Federation of Exchanges, small- and medium-sized enterprises (SMEs) are quite popular with Swedish investors and enjoy high levels of liquidity, especially when it comes to the first listing phase (IPO). In fact, Sweden accounts for almost a half of all EU SME listings (37%),[111] and has positioned itself "*as one of the most important growth hubs in Europe, enabling both Nordic and international entrepreneurs to access growth capital to develop and expand their businesses*".[112]

At a glance, Sweden enjoys a large base of active individual, non-professional investors, widened recently with younger savers. Swedish households hold large shares of their financial savings in equities and investment funds and the stock market environment is very attractive both for domestic and foreign investors, as shown by the number and share of total listing and SME listing in Sweden.

[111] European Securities and Markets Authority, *ESMA Report on Trends, Risks, and Vulnerabilities* (no. 2, 2021, 1 September 2021) ESMA50-165-1842, p. 42, available at: https://www.esma.europa.eu/sites/default/files/library/esma50-165-1842_trv2-2021.pdf.

[112] Ed Knight, *Sweden Leading the Way as a European SME Hub* (October 2021) available at: https://focus.world-exchanges.org/articles/sweden-sme-investment.

EMERGING TRENDS & MARKET CHANGES

Many FinTech sectors are entering a consolidation phase in terms of business model and implementation, attractiveness for clients and linkage with industry providers.[113] Whereas some FinTechs are active in the insurance sector to deliver new sales solutions, some provide IT solutions to banks (B2B), and others develop applications tailored for users, either in terms of financial evaluation, investment advice, trading, or banking solutions (B2C). Admittedly, these new entrants have brought innovative, digital, and attractive market solutions (neo-banking, robo-advisors, neobrokers, etc.).

Recently, the FinTech sector benefited from investors behaviour in time of Covid crises (i.e., at the outset of the health pandemic, the use of financial applications in Europe increased by 72% in a week).[114] Today, FinTech companies seek to gain market share by leveraging the digitalisation of financial services to ultimately reshape habits of both consumers and the financial sector. Further, they are also expected to seize new business opportunities offered by artificial intelligence, big data, and distributed ledger technology (DLT).

Supervisory and regulatory authorities are therefore attentive to market and business evolutions, as per the launch of a digital finance package at EU level. In outlining ways in which Europe can support the ongoing digital transformation of finance, the European Commission (EC) also aims to ensure broader oversight of the financial services landscape at large, from traditional actors to FinTechs and Bigtechs ones. The legal frameworks in development by the EC seek to provide a comprehensive regulatory framework by 2024 as to ensure that financial services are “fit for the digital age”, consumers and businesses, while promoting data-driven innovation.[115] The Digital Operational Resilience Act (DORA), the legislative proposals on crypto-assets (MiCA) and distributed ledger technology (DLT) among the core elements, focusing on ensuring the technological resilience of the financial sector (in terms of risk, protection and cybersecurity), which as to deliver a safe “digital uptake” in the EU.

The EC’s European digital identity framework shall, in turn, introduce safety authentication and data flows, from which nonbank players are also set to benefit from an increased capacity to rely on the banking ecosystem, thus opening up new opportunities of development. Ultimately, the digital finance package acts in support of the CMU Action plan to enable further “*financial market integration in the banking union and the capital markets union, reduce fragmentation via cross-border operations while boosting Europe’s economic recovery and autonomy*”. Therefore, it is expected that new links between the whole financial sector could accelerate the EU's economic recovery[116] in conjunction with increased investors participation in capital markets. For this, it will be essential for retailers to build on increased confidence and improved market performance, as envisaged in the 2022 EU Retail Investor Strategy.[117]

Thus, retail investors face a changing financial landscape, where increased accessibility of services via new offerings are influencing their behaviour and brings up supervisory challenges. In this section, we focus on two emerging trends that are shaping the way people deal with investments by exploring, on

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[113] https://thelawreviews.co.uk/title/the-financial-technology-law-review/germany#footnote-080
https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2019/fa_bj_1911_Fintech_en.html

[114] https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/200924-digital-finance-factsheet_en.pdf

[115] European Commission, “Digital Finance Package: Commission sets out new, ambitious approach to encourage responsible innovation to benefit consumers and businesses », 24 September, 2020). Available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1684.

[116] See also EURACTIV, “Banking and fintech: not a zero sum game”, 17 September 2021, https://www.euractiv.com/section/economy-jobs/opinion/banking-and-fintech-not-a-zero-sum-game/

[117] https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12755-EU-strategy-for-retail-investors_en

one hand, the advent of robo-advisors and neobrokers, and on the other hand, the developments of hybrid and virtual AGMs.

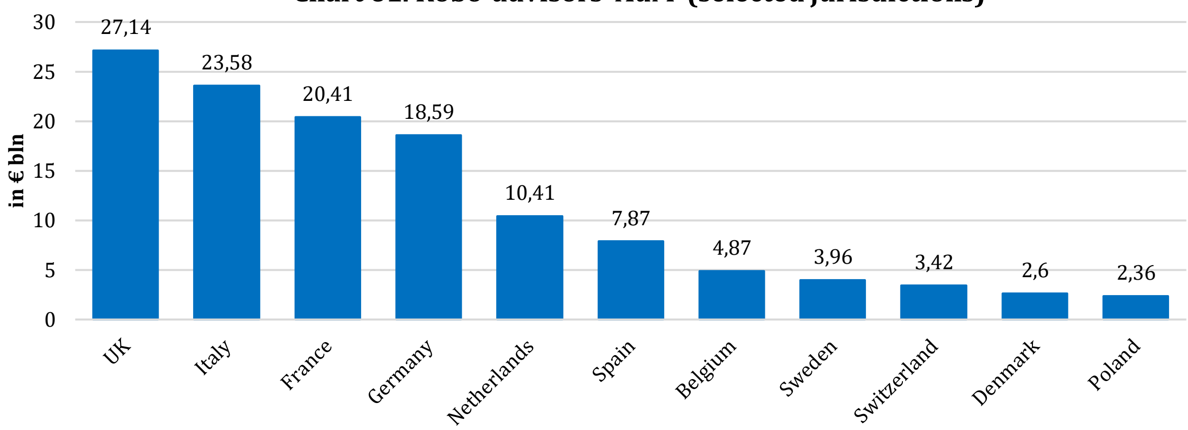
Robo-advisors

One constant emerging trend in the retail market is the uptake of robo-advisors, or "automated" financial advisors. These platforms (available either on websites or smartphone-apps) using algorithms to provide investment advice have attracted a large number of retail investors. This phenomenon is particularly relevant for young investors who are tech savvy and more confident to use digital services.

During the COVID-19 outbreak, individuals were more open to receive financial advice compared to the period before the pandemic. It is also interesting to note that the general aversion to algorithm-based advice has decreased during the pandemic among the individuals in the middle age group due to the increased use of digital tools during the lockdowns.[118] Another research underlines the link between the pandemic and the higher adoption of robo-advisors by financial services users. The impossibility to have human interaction and meetings has facilitated a higher use of these platforms and has generated higher expectations of financial consumers for robo-advisors compared to traditional financial advisors.[119]

According to Statista, the biggest market in terms of capital managed (assets under management, AuM) is in the US with almost a trillion dollars ($99.9 billion, or €87.6 billion) followed by China representing the second largest market with $92.7 billion (€81.3 billion) and Japan with $52.2 billion (€45.8 billion).[120] The EU remains quite smaller compared to the US and China. In terms of AuM, the biggest market in Europe in 2021 is represented by the UK (€27.14 billion) followed by Italy (€23.6 billion), France (€20.4 billion) and Germany (€18.6 billion).[121]

Chart 61. Robo-advisors' AuM (selected jurisdictions)



Source: Statista update January 2021, https://www.statista.com/outlook/dmo/fintech/digital-investment/robo-advisors/worldwide?currency=eur#key-market-indicators

In terms of worldwide users, in 2021, the number of clients reached 292 million and it's projected to grow up to 478.8 million by 2025.[122] Robo-advisors' clients tend to rely on information from online

[118] Robo-Advisor Adoption, Willingness to Pay, and Trust- Before and at the Outbreak of the COVID-19 Pandemic https://www.researchgate.net/publication/343976719_Robo-Advisor_Adoption_Willingness_to_Pay_and_Trust-_Before_and_at_the_Outbreak_of_the_COVID-19_Pandemic

[119] Based on the Malaysian retail market, Understanding consumer's adoption of financial Robo-advisors at the outbreak of the COVID-19 crisis in Malaysia https://onlinelibrary.wiley.com/doi/full/10.1002/cfp2.1127

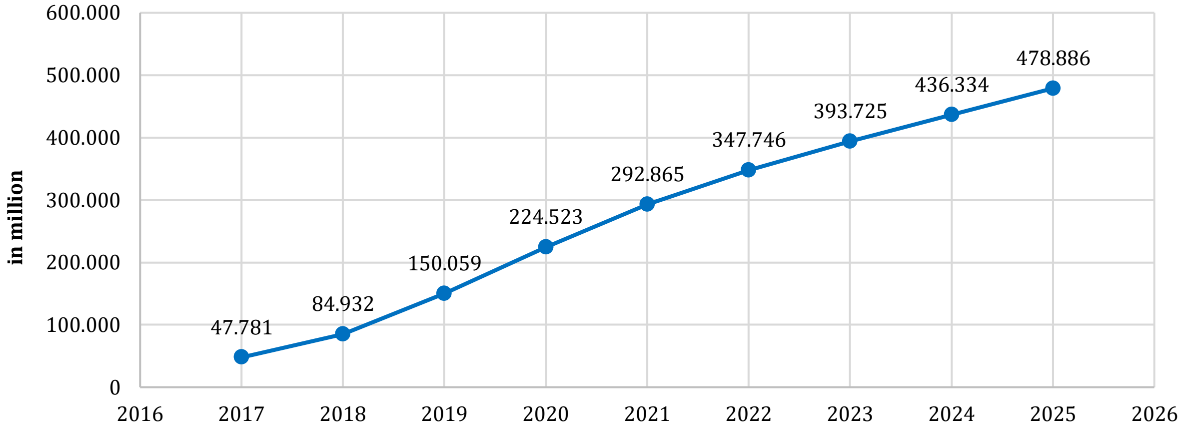
[120] Statista update January 2021 https://www.statista.com/outlook/dmo/fintech/digital-investment/robo-advisors/worldwide?currency=eur#key-market-indicators

[121] Ibid.

[122] Statista: statistics portal Robo advisors: https://www.statista.com/outlook/dmo/fintech/digital-investment/robo-advisors/europe?currency=usdv

sources rather than traditional financial advisors. In addition, demographic changes are complemented by older generations that are becoming more tech-savvy, demanding more digital investment services to meet their demands.[123]

Chart 62. Number of robo-advisor users worldwide



Source: Statista update January 2021 https://www.statista.com/outlook/dmo/fintech/digital-investment/robo-advisors/worldwide?currency=eur#key-market-indicators

BETTER FINANCE's previous research shows that robo-advisors can bring several advantages and benefits to individual investors. Compared to traditional financial advisers, the alghorythm can be considered to not be biased by human beliefs and it can adjust faster the client's portfolio to sudden market changes.[124] The European Supervisory Authorities' (ESAs) 2015 Discussion Paper on automation in financial advice[125] highlighted a series of other benefits robo-advisors can bring, such as increased accessibility through online distribution, product or instrument diversity, or the ability to receive "*financial advice in a faster, easier and non-time-consuming way*".[126] The European Securities and Markets Authority (ESMA) also highlighted in its guidelines that automated platforms should mitigate the risk of advisees overestimating their knowledge and experience when filling the questionnaires without human supervision.[127] In addition, another advantage of robo-advisors is the (very) low level of fees and **the accessible investment thresholds**[128] as advantages of automated advice platforms. Indeed, evidence shows that Robo-advisors charge between 130 and 180 bps less than traditional asset managers on a balanced fund;[129] other studies show that, while the cost for "human" advice does not

[123] Mikhail Beketov, Kevin Lehmann, Manuel Wittke, 'Robo Advisors: Quantitative Methods Inside the Robots' (2018) 19(6) Journal of Asset Management, 363-370.

[124] Maume (2018) Regulating Robo Advisory https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3167137

[125] European Supervisory Authorities' Joint Committee Discussion Paper on Automation in Financial Advice (4 December 2015) 4, JC 2015 080.

[126] Ibid, p. 17.

[127] ESMA, *Guidelines on Certain Aspects of the MiFID II Suitability Requirements* (n 114) Supporting Guideline no. 51.

[128] Many "Human" financial advisor require a minimum investment that could offset the cost of advice (e.g. €5,000) which is prohibitive or demotivating for a large part of EU savers, in particular the younger generations which do not have savings accumulated. A Deloitte report showed that robo-advisors need 52% less Assets under Management to cover the costs per advisor compared to a wealth manager; see Dominik Mouillet, Julian Stolzenbach, Andreas Bein, Ilma Wagner, 'Cost Income Ratios: Why Wealth Managers Need to Engage with Robo Advisors' (December 2016) Deloitte GmbH, p. 3, available at: https://www2.deloitte.com/content/dam/Deloitte/de/Documents/financial-services/Robo-Advisory-in-Wealth-Management.pdf.

[129] Gruppo di Lavoro CONSOB, Scuola Superiore Sant'Anna di Pisa, Universita Bocconi, Universita di Pavia, Universita di Roma "Tor Vergata", Universita di Verona, 'La Digitalizzazione Della Consulenza in Materia di Investimenti Finanziari' (2019) CONSOB Quaderni FinTech, p. 25, footnote 11 quoting a study from BlackRock.

go below 0.75%, and can go as high as 1.5%, Robo-advisors charge six times less (0.25%).[130] In light of the negative effect that fees have on returns,[131] these are considerable cost-efficiency gains.

However, since 2016, BETTER FINANCE has been investigating the advisory process of robo advisors, thus reporting on several issues and risks for individual investors (BETTER FINANCE Robo advice report 2016-2021)[132] Our recent report on Robo advice (2021) confirms the results of the previous years on the unreliability of the algorithms in terms of portfolio composition and expected returns. The mystery shopping of 18 Robo advisors reveals that there are significant divergences in equity allocation and expected returns for the same risk profiles.

Annual growth rates of the investment recommendation of Robo advisors vary from 1.90% to 11.69% for the "Millennial" profile, and from 1.45% to 7.10% for the "Baby Boomer" profile.

Another research based on robo-advisors located in Germany also demonstrates similar findings on divergences between asset allocation and performance of the investment advice. The study reveals that similar portfolio allocations composed of 50% equities and 50% usually yield substantial differences in in term of performances.[133] Also, additional concerns are raised in BETTER FINANCE research regarding transparency of these platforms (as even if they provide a simple and concise representation of the portfolio composition, some of the them do not disclose relevant information to the individual investors such as the risk level of the portfolio, past performance or detailed fees of the investment advice).

Neobrokers

Neobrokers are financial investment platforms operating in the digital space that offer brokerage services and securities trading activities at low or zero execution costs. Regarded as disruptive entities, some neobrokers are independent of the more conventional financial industries and seek a strategy of accessibility (or democratisation) in direct investments. Some of these business models rely on digital onboarding of clients via a dedicated mobile application or desktop website without applying any strict capital requirements.

Neobrokers recently came to the attention of the worldwide regulators and clients following a surge of GameStop stocks driven from individual investors took using US neo-broker Robinhood, which suspended its services to its own clients, favouring de facto hedge funds short-selling (betting against) GameStop. This raised serious concerns over conflict of interests due to the payment for order flow model allowing for inducements.[134] According to ESMA, while such a case remains unlikely in Europe, particular attention is being paid to such stock volatility trends. The GameStop case relaunched the debate on what may constitute market abuse, alongside the issues of social media-driven trading and market manipulation in coordinated action.[135]

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130 Abraham, Schmukler, Tessada, 'Robo-Advisers: Investing Through Machines' (n 5), 1, quoting data from EY (2015).

131 See the BETTER FINANCE on the correlation between cost and performance of retail investment funds, showing that fees can reduce up to 0.88% the excess return (and net performance) of a EU retail UCITS: https://betterfinance.eu/wp-content/uploads/BETTER1.pdf.

132 https://betterfinance.eu/publications/research-papers/?_search=Robo

133 PUHLE (2019) The performance and asset allocation of German Robo advisors https://www.researchgate.net/publication/336237020_The_Performance_and_Asset_Allocation_of_German_Robo-Advisors

134 See https://betterfinance.eu/wp-content/uploads/PR-GameStop-highlights-Discrimination-of-Non-professional-Investors-in-Stock-Markets-04032021.pdf

135 Politico, EU regulator cautions against GameStop-type trading, 17 February 2021 https://www.politico.eu/article/esma-warns-retail-investors-to-be-careful-on-gamestop-related-trading/

See also ESMA, Statement: "*Episodes of very high volatility in trading of certain stocks*", 17 February 2021, https://www.esma.europa.eu/sites/default/files/library/esma70-155-11809_episodes_of_very_high_volatility_in_trading_of_certain_stocks_0.pdf

The financial instruments available and the different types and products on offer vary among neobrokers; from traditional trading of securities such as stocks and ETFs, some go further by providing CFDs (contract for difference) and leverage trading options, or even the ability to invest in more volatile markets such as Forex, commodities, or cryptocurrencies. Neobroker apps focus on user-friendliness ("*fingertip investing*"), while their business model is characterised by low-cost investment, providing an apparent advantage over the traditional financial sector.[136] Recently, neobrokers have been attracting a significant number of retail investors, especially digital savvy ones. As explained in the first section of the report, the pervasive digitisation of society (due to health lockdowns) contributed to the upsurge of online trading by making it more understandable, accessible, and attractive.

Overall, in the last seven years we have seen an influx of new digital brokers, whose market is expected to grow.[137] In 2021 the biggest neo-brokers market in terms of assets under management (AuM) remained the US, with $200 million (€175 million). In Europe, the largest market is Germany with $20.8 million (€18.2 million) AuM, followed by the UK and France, with respectively $20.1 and $15.1 millions (€17.6 and €13.2 millions).[138] In France, the AMF showed that from Q3 2018 to Q3 2021, overall neobroker trades jumped from nearly 10% to 21.8%, illustrating a customer base that grew 12-fold over this period to reach over 400,000 active investors, now closing in on the active customer base of traditional online brokers.[139] In fact, this rise of neobrokers certainly increased retail investor participation in the EU capital markets to the extent that industry leaders saw it as an "*Americanisation of retail investors in Europe*".[140]

Neobrokers operate according to a variety of business models. Among the possible configurations to date, two major trends can be observed: the fee- and/or commission-based ones. Neobrokers also apply a zero commission rates usually by relying on securities lending methods, or on the payment for order flows (PFOF) model. Neobrokers can also charge commissions or fees, which are calculated as a percentage of the transaction and/or on related services such as currency exchange, or simply as a flat fee. In some cases, a combination of several methods of retribution may apply. Those offering a zero-fee model can also use a "*freemium*" model for specific order types (market orders, limit orders, etc.).[141]

To operate, neobrokers are inherently part of a wider ecosystem: they act in cooperation with many businesses such as stock exchanges, market makers, custodians, OTC traders and securities issuers. In Europe, the neobroker environment appears fragmented due to differences in the regulatory regime, which may result in indirectly favouring one model over another at the local level. For instance, whereas the Dutch financial regulator AMF prevents payment for order flow (PFOF), the German one, BaFin, tolerates it (subject to certain conditions, such as 'best execution' requirements).[142] In Belgium, where contracts for differences (CFDs) are prohibited, neobrokers servicing the country had to withdraw this service off the market.

As highlighted, most neobrokers rely on a low-cost model, which is at the core of their digital-only offer and inherent to FinTech. However, in the structural integration of such a cheap transaction model,

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136 https://moneyinc.com/what-is-a-neobroker-and-what-do-they-do/
137 https://www.statista.com/outlook/dmo/fintech/digital-investment/neobrokers-/worldwide
138 Ibid.
139 https://www.amf-france.org/en/forms-and-declarations/listed-companies-and-corporate-financing/retail-investors-have-grown-number-are-younger-and-increasingly-use-neo-brokers-covid-crisis
140 Financial Times, "Inside the battle to be Europe's Robinhood", 30 September 20201, https://www.ft.com/content/d3cbfa1f-d712-46b6-8595-ebe36b6c7162
141 "Freemium" is derived from *free* and *premium* and describes business models which offer basic access to a service (such as an app) to users, while additional features come at a cost – see Vineet Kumar, 'Making "Freemium" Work' (May 2014, hbr.org) Harvard Business Review, accessed 22 November 2021, available at: https://hbr.org/2014/05/making-freemium-work.
142 Lars Frölich, "*The promises neo-brokers make – and the ones they keep*", BaFin, 22/07/2021, https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2021/fa_bj_2106_Neo_Broker_en.html

unexpected additional costs may be passed on to the customer (such as stock exchange transaction taxes or other fiduciary services as well as fees for voting at AGMs), whereas these are generally included in the offer of traditional trading players such as bank and conventional online brokers. For evident reasons, BaFin consequently warned that "*investors should be careful not to fall for the advertising claims made by neo-brokers*".[143]

In fact, zero commission does not mean zero costs, and this may come with higher risks too. Financial consumers are rarely fully aware of the functioning of the markets and the inherent risk associated with its functioning, in particular when derivatives are involved. In general, in trading via neobrokers, orders are routed to trading venues or market makers who do make a margin out of the quoted bid and ask price of a security. In addition, the fact that most of these online brokerage platforms may allow trade outside trading hours can trigger higher costs and associated risks.[144]

While neobrokers can offer good value for money to discerning investors that are willing to build a balanced portfolio, the availability or access to stocks or ETFs also varies among platforms. In other words, what they provide can be limited, thus not always allowing investors to easily meet comprehensive and balanced investment objectives. In fact, their offers are often limited due to their selection of trading venues and market makers, and the range of instruments put forward also relies on what intermediaries offer for trading. Ultimately, this apparent facilitation in picking featured products can also lead to investors being wedged into selectivity.

In terms of services offered to investors, neobrokers fall short as many do not seem equipped to provide many shareholders' services, such as voting at AGMs. Moreover, specific conditions may apply from one neobroker to another in regard to corporate actions and how to benefits their clients. In some cases, cross-border (or even national) voting at AGMs is simply not available as a basic service, this constituting a legal shortcoming in the face of the Shareholder Rights Directive (SRD II). It is worth noting that, in some cases, such restriction directly stems from the business model underlying the activities of some neobrokers (such as securities lending-based ones). In other cases, however, it remains unclear as to why such legal services are not provided, or only partially. As of now, the current situation does not portend confidence in the development of digital engagement of shareholders via neobrokers.[145]

We noted that as part of wealth-management, neobrokers leverage online platforms via apps, enabling clients to self-operate trading activities in building their investment plans. They also feature increased integration with third-party mobile apps (such as banking and payment ones), making money transfers seamless to users that can place orders quickly and with temptingly low fees. In their user-friendly environment, neobrokers users also obtain market information and can instantly monitor their positions, which may bring a feeling of control. However, this all-round accessibility to trading, couple with this "attractiveness by design" which is at the heart of mobile trading applications also affects investor behaviour.

What is more, most neobrokers are prone to share market insights as a service and can regularly notify users of new assets or stocks availability. The merging of these commercial and educational aspects may have a strong impact on non-professional investors, to the point of leading to what has been coined as the "*gamification*" of investing.[146] As part of (novel) promotional tactics encouraging frequent trading, this trend has become more and more apparent. Therefore, the drive to take control of their finances

[143] Ibid.

[144] https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2021/fa_bj_2106_Neo_Broker_en.html

[145] See: BETTER FINANCE & DSW, SRD II Implementation Study, December 2021 (to be published).

[146] For example, novice investors entering retail brokerage in 2020 tend to have smaller account balances and to trade more frequently. – See "Investing 2020: New Accounts and the People Who Opened Them", FINRA Foundation and NORC at the University of Chicago, 2021, https://www.finrafoundation.org/sites/finrafoundation/files/investing-2020-new-accounts-and-the-people-who-opened-them_1_0.pdf

among millennials and centennial (or 'generation Z') has skyrocketed.[147] Moreover, the UK's FCA voiced concerns about certain neobrokers "*online ads or high-pressure sales tactics to purchase higher-risk products, which in all likelihood are not appropriate*" for retail investors.[148]

Hybrid and virtual-only AGMs

The global health pandemic has also changed the dynamics of corporate governance in listed companies, particularly from the point of view of the annual general meetings (AGMs). It should be noted that the AGMs are one of the most important bodies in the governance of a company since the distribution of profit (for the last fiscal year) is approved, or important decisions like capital increases, appointment of auditors or the discharge of directors etc. are being taken. From a "retail" investor point of view, the AGM is the only opportunity for savvy minority, individual shareholders to participate in the governance of listed companies. As highlighted in one of our recent reports, "*for private, non-professional shareholders it is very often the only opportunity to engage with managers, auditors, or members of the supervisory body*".[149]

Whereas, before the pandemic, very few companies in a handful of jurisdictions were allowed to hold hybrid (in-person or virtual) AGMs, public health restrictions in the first two quarters of 2020 required adjustments to the applicable legislation. As a result, 67% of listed large caps in 11 jurisdictions held their AGMs in a purely virtual format, meaning that shareholders could participate remotely and vote live during the AGM.[150]

The emergency legislation in the field of corporate governance has changed most aspects regarding shareholder rights, such as the rules of convocation and of holding the AGM, as well as the rules on exercising shareholder rights before, during, and after the AGM. In the perspective of minority shareholders (surveyed by BETTER FINANCE and DSW), among the main advantages of holding virtual AGMs are the reduced costs and the possibility of reaching a much broader audience, as well as the reduced environmental footprint due to the elimination of travel (for shareholders). In terms of disadvantages, individual shareholders highlighted that virtual AGM have an impact on the debate/discussion nature of such meetings. In terms of expectations, respondents in BETTER FINACE-DSW's survey on virtual AGMs noted that:

- *"The attendance rate would increase as a broader audience can be reached by online means,*
- *the number of questions raised at an AGM would be lower while*
- *the quality of responses by the boards would be enhanced as a consequence of a longer preparation time.*
- *Likewise, it was expected that the average length of a virtual-only meeting would be shorter than that of an on-site meeting".*[151]

A survey among BETTER FINANCE's members and individual investors clearly showed that both investor associations and individual investors prefer general meetings to be held in a hybrid format (footnote and chart).

[147] Deloitte Center for Financial Services, *The rise of newly empowered retail investors*, 2021, https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-the-rise-of-newly-empowered-retail-investors-2021.pdf
[148] https://www.bbva.com/en/finfluencers-financial-education-and-regulator-surveillance/
[149] BETTER FINANCE, Deutsche Schutzvereinigung für Wertpapierbesitz, *The Future of General Shareholder Meetings: BETTER FINANCE-DSW Study On The 2020 Virtual Shareholder Meetings* (2020), p. 4, available at: https://betterfinance.eu/wp-content/uploads/Virtual-AGMs-in-the-EU-FINAL-2.pdf.
[150] Ibid, p. 6.
[151] Ibid, p. 15.

The report then highlights what needs to be done to make the hybrid model the future of AGMs in EU listed companies. In short, hybrid AGMs must be attractive for companies and address certain issues such as identification processes for shareholders, the possibility to exercise all shareholder rights through the platform (for remote participation) in real time (not before the AGM, as it happened in 2020), ensuring that shareholders are treated in the same way (whether participating in-person or virtually, residents or non-residents) and allowing shareholders to decide whether to hold the AGM in-person, virtual-only, or in a hybrid model.[152]

CHALLENGES AHEAD

In BETTER FINANCE's view, there are two types of challenges in light of the increase in retail trading and investments: from a *policy-making* perspective and from a *supervisory* perspective.

Policy-making perspective.

The main questions now, given this new retail trading and investment environment, are how to maintain this momentum and how to further increase it? Retail savings will be pivotal in the recovery from the economic effects of the global health pandemic, reason for which maintaining this trend will benefit both the EU economy as a whole and EU households.

The benefits for EU savers are threefold: first, there is an opportunity for consumers to become again owners of their own economy. As highlighted by BETTER FINANCE on several occasions, the gradual decrease in listed equity ownership of EU households, starting with 1975,[153] created a disconnect between investments and the functioning of the economy, which also lead financial services users from not fully profiting of the investment returns of European listed companies.

Second, capital market investments may help EU citizens obtain more value for their money, which will be essential given the recent low and even negative interest rate environment, coupled with risks of rising inflation. Last, this trend brings an opportunity to increase financial literacy and awareness, which will significantly improve financial and retirement planning of EU households, which is a key priority of the EU.

For businesses, increased household funding may be larger and cheaper compared to traditional channels, which may determine a positive spiral of growth, job creation, competitiveness, and wealth creation in the EU.

While there was, indeed, a spike in the trading and investment levels of EU households, the starting point (pre-pandemic) was fairly low.[154] Since 2015, EU action focused also on increasing the participation rate of EU households into capital markets (which was, and still is, considered low), diversify investments and reduce the (over)reliance on the banking sector.

While the first question, *how to keep this retail investment momentum*, may be easier to address given empirical findings that, once acquainted with investing, non-professional savers will continue to invest

[152] Ibid, p. 28-30.
[153] See Observatoire de l'Epargne Europeenne, INSEAD Data Services OEE, *Who Owns the European Economy?* (August 2013) p. 85, available at: https://ec.europa.eu/info/sites/default/files/file_import/1308-report-who-owns-european-economy_en_0.pdf.
[154] See BETTER FINANCE, *CMU Assessment Report 2015-2019* (November 2019) BETTER FINANCE, available at: https://betterfinance.eu/publication/cmu-assessment-report-2015-2019/.

and will not cash-out their savings.[155] The more difficult question is how to further increase retail investor participation in capital markets?

In the 2020 edition of the Robo-advice report, BETTER FINANCE also researched the determinants of a higher household participation rate in capital markets, seeking to understand why the robo-advice market did not take off as expected. The excerpt below[156] relays our key findings:

Households' saving and investment habits are directly affected by the amount of trust in financial institutions.[157] If "retail" savers are not attracted to invest, they will not seek an advisor to begin with, whether human or robot.[158] At the same time, if households do not trust a certain financial institution, they will consequently distrust the financial innovations adopted by it,[159] with the same applying to investment advice.[160] In this sense, European[161] indices of trust in consumer services and goods continue to rank financial services (or sectors of it) among the most distrusted by the "retail" sector.

(…) *Trust can be improved, among others, through increased awareness of investor protection and increased financial literacy.*

Most studies and EU policies on restoring consumer trust in financial services focus on improved disclosures and supervision by public authorities. One factor that deserves attention from policy makers is the individual's unawareness of the investor protection framework. An incidental finding in a study regarding the Italian consumer's propensity to seek advice and rely on Robo-advisors revealed that:

"Concerns about 'having to do it myself', as already said, discourages the use of Robo advice and at the same time reveals a lack of knowledge of the regulatory framework that protect investors receiving (either human or Robo) advice"[162]

This finding could be coupled with the empirical evidence that "Respondents who trust the European Union are more likely to invest in capital markets and diversify their savings".[163] Perhaps if the EU would do more to inform "retail" investors of the framework that protects their rights and interests, Robo-advisors and capital markets in general would receive more attention from EU households.

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[155] See European Federation of Employee Share Ownership, *Employee Share Ownership: The European Policy* (May 2019) available at: http://www.efesonline.org/LIBRARY/2018/Employee%20Share%20Ownership%20--%20The%20European%20Policy.pdf.

[156] BETTER FINANCE, *Robo-Advice 5.0: Can Consumers Trust Robots?* (2020) BETTER FINANCE, p. 25-27, available at: https://betterfinance.eu/wp-content/uploads/Robo-Advice-Report-2020-25012021.pdf.

[157] A study of the Dutch Central Bank argued that distrustful consumers will engage less and "*may decide not to become customers of a financial institution*" -see Carin van Cruijsen, Jakob de Haan, Ria Roerik, 'Trust in Financial Institutions: A Survey' (August 2020) De Nederlandsche Bank Working Papers; see Elisabeth Beckmann, Davide Salvatore Mare, 'Formal and Informal Household Savings: How Does Trust in Financial Institutions Influence the Choice of Saving Instruments?" (1 August 2017) 2; also M. Gentile, N. Linciano, P. Soccorso, 'Financial Advice Seeking, Financial Knowledge and Overconfidence: Evidence from the Italian Market' (March 2016) CONSOB Quaderni di Finanza.

[158] A study by Eve-Lachance and Tang showed the positive correlation between trust on financial advice and the use of the five types of advice, see Marie Eve-Lachance, Ning Tang, 'Financial Advice and Trust' (2012) 21 Financial Services Review, 209-226, 211.

[159] Per a contrario, based on the finding that "*customers who trust banks will also trust financial innovations (like internet banking) introduced by these banks*", see van Cruijsen, de Haan, Roerik, 'Trust in Financial Institutions: A Survey' (n 45), p. 7.

[160] Eve-Lachance, Tang, 'Financial Advice and Trust' (n 87), p. 211.

[161] See the 2018 edition of the European Commission's Consumer Markets Score Board ranked financial services among the worst performing markets in Europe, https://ec.europa.eu/info/policies/consumers/consumer-protection/evidence-based-consumer-policy_en.

[162] See M. Caratelli, G. Giannotti, N. Linciano, P. Soccorso, 'Financial Advice and Robo Advice in the Investors' Perception: Evidence from a Qualitative Study' (6 December 2019) CONSOB Quaderni FinTech, p. 19.

[163] Elisabeth Beckmann, Davide Salvatore Mare, 'Formal and Informal Household Savings: How Does Trust in Financial Institutions Influence the Choice of Saving Instruments?" (1 August 2017), p. 12.

The propensity of "retail" investors to seek advice is also affected by their level of financial literacy[164] *and sophistication.*[165] *Although it is still debated whether trust and financial literacy are directly or indirectly correlated;*[166] *researchers are more inclined to qualify financial literacy and trust as complements, rather than independent-dependent variables. Nevertheless, studies from the Dutch, Swedish and Italian market confirm that increased financial literacy would also improve stock market participation.*[167]

In this sense, we reiterate that there are additional[168] factors that underpin the propensity of individual, non-professional savers to seek advice and invest in capital markets:

- trust in financial institutions and their products;
- financial education; and
- awareness of the investor protection framework; and
- a coherent tax and insolvency framework;
- the need for a comprehensive investor protection framework including harmonised safeguards in case of delisting.

Supervisory perspective.

We highlighted above research about supervisory authorities' increasing concerns on the recent investing trends of retail savers, as well as some newly developed business models. In short, BETTER FINANCE (in collaboration with its member organisations also) identified three main risks:

- individual investors' behavioural biases leading them to buy or invest in products that they do not understand, are too complex, or unsuitable (most notably, much riskier) in light of their investor profiles;
- mis-selling or misleading practices of financial services providers; and
- inadequacy of redress tools.

Some non-professional investors may be very speculative or over-evaluate their capacity to understand the risks and expectations from financial products and investments. This can lead to sub-optimal investment decisions and, thus, portfolio allocations, which can do more harm than good on the long-term for "retail" investors. Moreover, the development of *social trading* can also have detrimental effects for retail investors' interests.

At the same time, financial services providers may engage in practices that lead to mis-selling of financial products or services. As highlighted by ESMA, there is no "free meal", all financial services and products have a cost and, in our view, those who seem free or costless at the beginning will end up costing much more on the long-term.[169]

[164] Elisabeth Beckmann, Davide Salvatore Mare, 'Formal and Informal Household Savings: How Does Trust in Financial Institutions Influence the Choice of Saving Instruments?" (1 August 2017), p. 14.
[165] M. Gentile, N. Linciano, P. Soccorso, 'Financial Advice Seeking, Financial Knowledge and Overconfidence: Evidence from the Italian Market' (March 2016) CONSOB Quaderni di Finanza, p. 11.
[166] *Ibidem,* at the same time, some authors found literature indicating that trust "*is positively correlated with financial literacy, which in turn some studies found to be positively associated to financial advice seeking*", see B. Alemanni, A. Angelovski, D. Di Cagno, A. Galliera, N. Linciano, F. Marazzo, P. Soccorso, 'Do Investors Rely on Robots? Evidence from an Experimental Study' (7 September 2020) CONSOB Quaderni FinTech.
[167] See the research review done by Moloney on investor education as a tool of investor protection in Niamh Moloney, *How to Protect Investors: Lessons from the EC and UK* (2010) Cambridge University Press, 376.
[168] In addition to the factors observed in the section about *Determinants of increased retail investments* in this report, above.
[169] For instance, see BETTER FINANCE's Evidence Report on the Effects of Banning Inducements (2021) BETTER FINANCE, available at: https://betterfinance.eu/publication/better-finance-evidence-paper-on-the-detrimental-effects-of-inducements/.

Finally, supervision cannot prevent all breaches of consumer rights, reason for which adequate redress tools, both individual and collective, must be put in place to ensure that investors can be compensated for their damages. Unfortunately, recent "scandals" in the financial services industry (Commerzialbank, Wirecard) show that individual investors are still ill-equipped to obtain redress, even worse when considering direct capital market participants in light of the Collective Redress Directive.[170]

[170] Directive (EU) 2020/1828 of the European Parliament and of the Council of 25 November 2020 on representative actions for the protection of the collective interests of consumers and repealing Directive 2009/22/EC, ELI: http://data.europa.eu/eli/dir/2020/1828/oj.

POLICY RECOMMENDATIONS

In light of the developments documents throughout this report, BETTER FINANCE sees a unique opportunity to significantly improve the funding and functioning of EU capital markets and make pivotal steps towards achieving a true single market for financial services and investments (Capital Markets Union). The policy recommendations listed below focus on the evolving trends observed in the new retail trading environment and serve the twofold purpose of:

- maintaining, expanding and encouraging the new wave of new and young individual investors, particularly direct investors, into capital markets, by ensuring the necessary conditions to obtain an optimal investment experience;
- further increase the participation rate of EU households into capital markets.

The following policy recommendations build on BETTER FINANCE's prior experience and on the response to the EU Commission public consultation on the EU Strategy for Retail Investors.

Enable hybrid AGMs

The 2020 annual general shareholder meetings' (AGM) season has temporarily enabled many more listed companies to hold virtual-only or hybrid (in-person and virtual participation) models, but certain adjustments must be further mandated in order to make, at least, the hybrid model a workable solution for the future. BETTER FINANCE reiterates its policy recommendations in light of the survey on hybrid AGMs:

- Tools allowing proper identification processes (but only for shareholders) are put in place and used to grant access to the AGM.
- Shareholders must be treated the same way, regardless of their means of participation.
- Shareholders should have a say in the decision to hold a general meeting virtual-only through an amendment of the articles of association.
- Companies should provide for the possibility to exercise all shareholders' rights also via the technical platform where virtual presence at the AGM is allowed. This implies:
    - The right to access all documents usually made available at a general meeting. This can include for example the convocation, the annual reports and accounts, the articles of association but also the list of participants whereby adhering to data protection rules;
    - The right to appoint a proxy to an (independent) third party;
    - The right to listen, to speak, to ask questions and to receive answers;
    - The right to propose items to the agenda or amend items;
    - The right to vote until the end of the Q&A session;
- Where certain jurisdictions provide for further rights to shareholders before, at or after an on-site meeting, shareholders should be entitled to the same rights also when they participated in the meeting virtually;
- Where a notary public is not required to scrutinise the voting process, the meeting should expressly recognise that independent third parties may follow the proceedings through technical means and that this is approved at the beginning of the meeting;
- The publication of the votes should clearly distinguish between shareholders having attended the meeting on-site, having attended virtually, those who use other means of distance voting, e.g. vote by post, and those who attended by proxy. Where shareholders have not been recognised for voting, this should likewise be stated in the publication of the votes including a reason as to why these votes had not been counted.

- Technical platforms need to be designed in a way that they do not exclude foreign investors, particularly through an amendment of the Implementing Regulation to SRD II could be including a field in the confirmation of entitlement;[171]
- Last but not least, robust disclosure needs to be in place in a company's proxy statement which assures shareholders that they will enjoy the same rights and opportunities to participate virtually as they would at an in-person meeting.[172]

Employee Share Ownership

A very powerful tool to reach the objectives of the EU Strategy for Retail Investments and take important steps towards building the Capital Markets Union (CMU) is the development of employee share ownership (ESO), as recommended by the High-Level Forum on the Future of the Capital Markets Union and by the European Parliament last year.

In countries where it is developed, ESO has proven to foster equity culture among citizens, and to make companies more resilient and more sensitive to sustainability issues. Therefore, ESO should be considered as a key factor of a social taxonomy and key indicator of the social contribution of ESG investments.

Financial Education

The level of financial literacy and awareness of EU households play an important role both as a determinant of the participation rate of retail investors in capital markets and for their ability to make informed decisions when investing. Increasing the level of financial literacy though independent, unbiased financial education campaigns and tools will also be essential to reduce partly the behavioural biases non-professional investors exhibit when investing, many of them being – in fact – detrimental to their interests. As such, the EU should:

- **evaluate the past financial education initiatives** and establish what has and has not worked
- promote financial education at school for the younger generations (especially financial mathematics and knowledge about the capital markets);
- investor education for adults, through two specific points:
  - at the retail point of sale, which requires that **investment advice is delivered independently by professionals with the required competency levels;**
    and
  - at the workplace, which requires the **promotion of Employee Share Ownership (ESO) and other corporate savings plans**; albeit very underdeveloped in the EU, these are currently the best (unbiased) form of adult investor education, with lasting effects on the participation rate of adults in capital markets.

Clarify and specify the general duty of care to make it enforceable

The obligation to "*act honestly, fairly, and professionally in the best interest of clients*" (Art. 24(1) MiFID II) must be strengthened and given enforceability by adding a clear precise and unambiguous definition for clients' *best interests*. The requirement for providers to act to deliver "value for money" should be included.

End EU Law confusion between "advice" and "selling"

[171] Concretely, a respective field would need to be added in table 4 (confirmation of entitlement) of the Annex of Implementing Regulation (EU) 2018/1212

[172] Implementing Regulation (EU) 2018/1212 already requires in table 3 (meeting notice) part D. that the meeting notice includes an information about all available methods of participation.

Currently, EU law confuses selling and advising on investment products when dealing with "inducements": in particular those are charged as much on "execution only" investments as on "advised" ones. This is because inducements are paid only for **selling** investment products, never for **advising** them. In this sense, BETTER FINANCE proposes a distinction between distributors who sell and those who advise (recommend) on investment products or services.

Strengthen the suitability assessment for retail clients

In order to ensure the availability of certain products investors and enhance the design of those that are already intended for retail investors, EU law should:

- replace the appropriateness test with the suitability assessment for non-advised services, except for execution-only (Art. 25(2) MiFID II);
- incorporate in the target market and suitability assessment the probability of meeting the provider's value for money objective and the client's return expectations, in real net terms, over or at the end of the recommended holding period, or at least a reasonable probability not to erode the purchasing power of his savings over the same horizon;
- define toxic products as having a very high probability of delivering negative value for money from the start to the client in real net terms;

Reduce and simplify investor disclosures

Investors are faced with information overload and too many warnings. EU law should:

- reduce the need for disclosures and warnings by banning certain practices for retail clients, such as "inducements" for execution-only services;
- the rule of Art. 24(3) MiFID II ("fair, clear, and not misleading") should be enforced in all investor disclosures;
- EU authorities must ensure:
    - comparable actual performance and cost disclosures;
    - simplify and reduce the volume of disclosures for retail investors.

Improve redress tools for individual, non-professional investors

Obtaining redress is a major issue for savers given the high complexity and/or technicality of investment products, the low financial literacy level of the average saver and often of courts, the asymmetry of information between providers and "retail" clients, the lack of effective collective redress processes in many Member States, and at EU level for individual investors investing directly in capital markets (for example Wirecard shareholders).

In this sense, BETTER FINANCE proposes EU policy makers to consider:

- retail investor associations should have the right to represent their members victims of collective abuses before court;
- including retail investors who invest directly in listed equities and bonds in the scope of the recent EU directive on representative actions for the protection of the collective interests of consumers (Directive (EU) 2020/1828).

However, individual prejudice can sometimes find solutions via mediation, which can in several cases be effective. In this sense, BETTER FINANCE asks for:

- a cooling-off period of two years minimum for mediators;
- strengthen and ensure the independence of ombudsmen from the financial industry;
- national mediators and/or ombudsmen of the domicile of the client should be competent for complaints arising from products and services sold under the free provision of services regime

(where the distributor/provider is domiciled in another EU Member State), as the language and distance barriers make it very challenging for the client to go a foreign mediator.

Review and improve the listing act

Companies that have not yet gone public must be incentivised to do so in order to access financing on capital markets and reduce the overreliance on bank funding. However, this should not come at the expense of investors, and the Prospectuses for primary and secondary issuances need not necessarily to be shortened, but their quality to be improved. The problem when going public (new listings) is that the information in the Prospectus is often not sufficient or of poor quality to evaluate risk and forward-looking statements. Therefore, private (and institutional) investors are reluctant to invest so the objective is to secure higher quality disclosures from companies and SMEs.

In the experience of BETTER FINANCE members, the primary listing (IPO) Prospectus is a very important piece of disclosure for investors as it serves not only for information (evaluation) purposes before the IPO, but is at the same time the only document on which shareholders may build and enforce legal claims against an issuer in case of wrongdoings or omitted information. Instead of considering adopting a lighter Prospectus, the existing prospectus should be improved by making it more comprehensible and understandable to the audience it was designed for, the prospect investors.

On secondary issuances, simplification of Prospectuses for established EU-domestic companies (with an existing track record) would be welcomed. It should be avoided, however, to introduce another, distinct Prospectus regime that would include different information than those currently required. We recommend to conduct a targeted consultation for regulating secondary issuance to get a more clear picture of the informational demands of investors. Rather than simplifying the scrutiny and approval process by national competent authorities (NCAs), it should be ensured that the approval process is harmonised across Member States.

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