

Opening Statement

Economic and Monetary Affairs Committee – European Parliament **Verena Ross, ESMA Chair**

Dear Chairwoman,

Dear Members of the Economic and Monetary Affairs Committee,

Thank you very much for the invitation to address you this morning regarding the Commission's proposal on the Retail Investment Strategy.

One of the ambitions of the EU 2020 Capital Markets Union Action Plan was to make the Union an even safer place for citizens to save and invest long-term. I am pleased these efforts have finally materialised into concrete proposals aimed at putting retail investors' interests at the centre of building the single market for capital.

It is clear that without investors' trust and their active participation, capital markets will not be able to grow sustainably and substantially. While there are considerable differences among Member States, direct investment by households in Europe remains low. The share of EU household assets held in financial securities such as stocks or bonds, has stood at only around 15-17% in the past few years¹. Even though UCITS represent the largest retail investment sector in the EU, and are an international success, the amount of EU household investment in UCITS is much lower, when compared to US household investment in US mutual funds². It is also concerning to read that 45% of Europeans are not confident that the investment advice they receive from financial intermediaries is in their best interest. If we want to see retail participation increasing, fostering trust must be at the core of the solutions we seek to provide

At ESMA, we are committed to ensuring that investors remain protected throughout their investment journey. I would therefore like to express our overall support to the Retail Investment Strategy and its desired outcomes.

As ESMA, we have contributed to this set of legislative proposals over the past months and years, and I am pleased to see that the Commission followed our advice on several topics. Allow me to briefly highlight a few examples, and also mention some areas which could potentially be further explored throughout the legislative process.

Firstly, digitalisation has proven to be an important driver encouraging retail participation in financial markets, particularly during the COVID-19 pandemic. ESMA called for adjustments of the existing disclosures to make them more fit for the digital age, for example, by selecting vital information, and layering it in a way that facilitates understanding of offered products and streamlines the user experience. Making the digital world work for investors is an important step [and ESMA stands ready to assist with the implementation of the proposals in this area].

¹ 2023 EC [Factsheet](#) on Retail Investment Strategy; 2022 EC CMU [indicators](#)

² According to ICI, at the end of 2021, US households held 88% of the total net assets of US mutual funds. In the EU, this share remained lower. in 2021. According to the 2023 ESMA Market [report](#), EU retail investors held 60% of total EU UCITS assets outstanding.

In the context of improving disclosures for investors, more widely, I would also like to note that a broader review of the PRIIPs Regulation would have been preferable from our perspective to tackle the issues related to the performance section of the KID, and in particular the need to include past performance, where relevant.

While I am making suggestions for possible further enhancements, let me also mention that we believe the Retail Investment Strategy could have been used as an opportunity to introduce legislative changes that would support us in developing a fund comparison tool. As suggested by the European Court of Auditors³, such a comparator would allow investors to obtain information about all funds on offer and help them to spot the most attractive deal based on chosen criteria.

When investors look for opportunities to mobilise their savings, they can easily get misled by online marketing campaigns, for example, on social media. We therefore welcome that the proposals envisage to strengthen supervisory powers in this respect.

For many investors, high costs can be detrimental, so let me also underline the importance of addressing the continuous issues around costs and charges. Despite gradual improvements over the years, high costs remain a key disincentive for retail participation in the EU capital markets. ESMA's analysis⁴ has demonstrated that funds costs can easily climb-up up to 30% of the initial investment over a period of 10 years.

ESMA has already taken several actions to improve transparency around costs and charges. Besides identifying high-cost funds and those engaging in closet-indexing, we issued guidelines to support convergence in supervision of performance fee models. We also conducted rounds of common supervisory actions on costs, as well as suitability and product governance. We were very pleased that our recent Opinion on the important topic of undue cost of UCITS and AIFs has been considered as a key part of the Commission's proposal on the Value for Money framework.

We welcome the concrete solutions to ensure investors do get the value for their money that are now on the table. Given the central role envisaged for ESMA as well as EIOPA in this area, I would like to underscore two key elements - transparency vis-à-vis investors and availability of data. To this end, adequate reporting requirements for both product manufacturers and distributors as well as synergies among the various reporting frameworks will be indispensable to make the VfM proposals work in practice.

I would also like to support the intention to provide supervisors with more data on firms' cross-border activities. Retail investors must be properly protected regardless of whether the firm they deal with is located in their country or somewhere else within the EU. This is a very high priority for ESMA and we therefore committed ourselves to enhancing cooperation and information exchange among the supervisory authorities in the new ESMA Strategy.

To conclude, let me also express my full support to the aspiration of enhancing financial literacy. ESMA already coordinates national initiatives and works closely with our sister

³ 2022 European Court of Auditors Special [Report](#): Investment funds

⁴ 2023 ESMA Market [report](#): Costs and Performance of EU retail Investment Products

authorities EIOPA and EBA. Our latest cross-sectoral factsheet, for instance, explains the impact of inflation and rates rises on investors. Nevertheless, it should be also acknowledged that improvements to financial education require action by several actors, and financial regulation alone may not deliver the desired shift in the retail investment culture in Europe.

Thank you for your attention and I look forward to answering any questions you may have.