Commission-based remuneration vs. Fee-based remuneration: is there a better model for retail investors?

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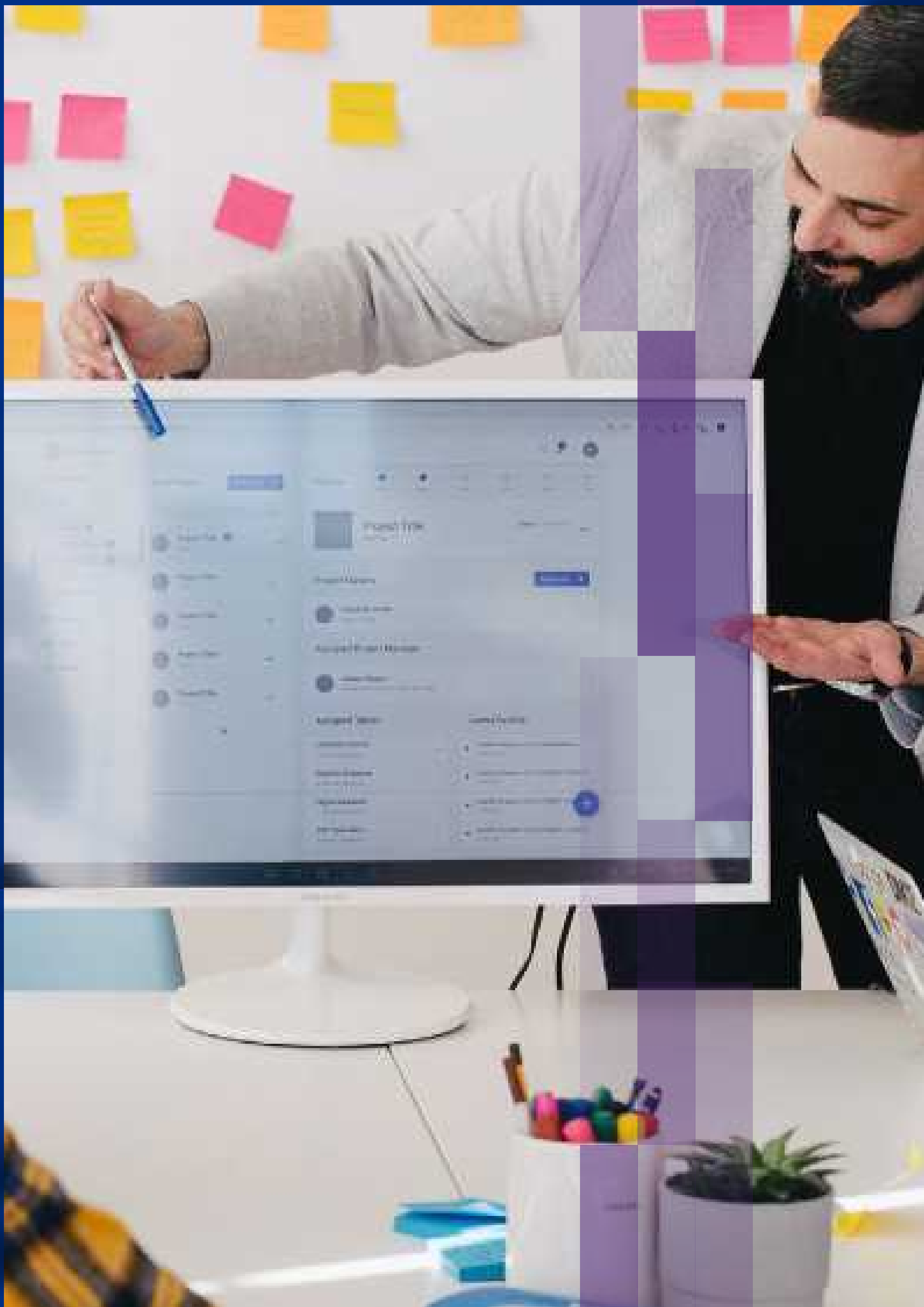


Executive Summary

The objective of this Study is to provide an analysis of the different remuneration models for retail investors including a comprehensive approach on costs borne by clients, as well as an assessment of the added-value services provided to investors under the Commission-based model.

What is the total cost borne by a retail investor?

This approach on costs borne by retail investors when investing in financial instruments takes into consideration not only the **cost of the products** (entry, ongoing and exit costs) but also the **costs of the services** involved, which primarily comprise the following: (i) investment advice and (ii) execution of the transaction.

The sum of the cost of the products and the costs of the related investment services of a financial instrument for a retail investor is defined as the **Total Cost of Ownership ("TCO")**.

With this comprehensive approach, the TCO for a retail investor can be used as a **common ground for comparison of costs** between the two different cost models used in Europe.

Two possible models: Commission-based and Fee-based models

MiFID I defined a set of rules with respect to legitimate inducements paid by the manufacturer of the financial instrument to the distributor provided that the quality enhancement and disclosure criteria were satisfied. For the purpose of this Study, we refer to this model as the **Commission-based model**.

In 2018, with the application of the MiFID II regulatory framework, a stricter regime was introduced, strengthening -inter alia- the quality enhancement requirement. In addition, inducements were totally banned for independent investment advice and individual portfolio management services.

Two European countries, the Netherlands and the United Kingdom, extended the ban of inducements to other investment services such as non-independent investment advice, execution of orders on behalf of clients or reception and transmission of orders (RTO). Intermediaries must charge the investor directly for these services via separate fees. This model is referred to as the **Fee-based model** across this Study.

Even though the two models are usually presented as exclusive, they coexist[1], in all Member States, except for the Netherlands. As a result of this coexistence, most European citizens have the **freedom to choose** (95% of the Eurozone population), according to their characteristics and preferences, between intermediaries that offer their services through either models, or both. Financial intermediaries themselves can also freely determine the model(s) that allow them to provide the best service to their clients.

Regardless of the model, investors must be clearly informed before the provision of the service if the financial intermediary is remunerated on (i) a Commission-based basis, (ii) a Fee-based basis or (iii) both. Thus, **where both models coexist , investors have all the relevant information and can choose if they want to directly pay the distributor or not, depending on the business model adopted by the last one**.

Methodology

The analysis compares the TCO borne by the end investor for the two models illustrated in this Study, through the information collected from **France**, **Italy** and **Spain** (for the Commission-based model) and from the **Netherlands** and **UK** (for the Fee-based model).

The data come from **questionnaires** sent to the financial entities of the countries participating in this Study, interviews and from other **available public sources**. All data, unless otherwise stated, are referred to **December 2020**.

This Study analyzes mutual funds that are generally included in an average portfolio for a retail client **(Equity funds, Bond funds and Mixed funds)** or financial instruments that contain a specific cost structure **(Retail Structured Products (RSPs) and ETFs)**.

Only retail client data are taken into account. When considering the portrait of retail investors, it is important to note that the median level of financial assets for France, Italy and Spain is quite similar to the Eurozone level (10 300€) with respectively 11 000€ for France, 7 000€ for Italy and 9 000€ for Spain. In the Netherlands, the median of financial assets among retail clients is twice as much with 22 400€, and in the UK 13 000€.

As it will be later explained, under the Fee-based model the minimum financial assets to get investment advice is 500 000€ in the Netherlands and 100 000£, in the United Kingdom, which places retail investors for France, Italy and Spain far from getting access to investment advice in those countries.

The annual TCO has been calculated for a **5-year period of maintenance** of the relevant investments.

For the Commission-based model, the TCO is presented as an **average of France, Italy and Spain**, in order to focus on the model itself rather than on individual costs per country. Such an approach has not been possible for the Fee-based model countries due to the different investment advice thresholds required to obtain access to investment advice.

In addition to the TCO analysis, an assessment of the **enhanced and additional services** offered to investors by distributors to improve the quality of service is provided, together with an evaluation of the **practices implemented by distributors to manage conflicts of interest** with respect to European regulatory requirements.

[1] Or are mixed into a hybrid model, see French CGP model section 4.1

Key findings

Where inducements have been banned, no investment advice is provided to retail investors with assets under 100 000€: a gap in access to investment advice and other services has emerged.

The inducements ban has shrunk the access to investment advice for mass retail clients.

This holds true for both the UK and the Netherlands. In the United Kingdom, a client with an investable amount of up to 100 000£ (116 442€) receives limited or no investment advice, and in the Netherlands, mass retail clients have limited or no access to investment advice under 500 000€ of invested assets.

Retail clients within the Eurozone have, on average, 10 300€ to invest in financial instruments.

Unlike the Fee-based model, **the Commission-based model allows all clients, including the smallest ones, to access investment advice at a reasonable cost.**

Above 100 000€, both models present a similar level of costs for retail investors. The TCO borne by investors does not depend on whether the intermediary is remunerated via commissions or fees.

When comparing the Commission-based and the Fee-based models, both offer **similar ranges of Total Cost of Ownership** for retail investors. Moreover, for low investment amounts, the Commission-based model can provide for a service where the Fee-based model does not. In addition, different tax rules (e.g. VAT) apply according to the models, which could lead to higher costs in the Fee-based model.

The average TCO in France, Italy and Spain is below the costs in the United Kingdom for all type of products and actually very close to the costs applied in the Netherlands, **despite the large difference in investment thresholds, which, in the Netherlands and the United Kingdom, consequently, drive most retail investors out of the investment advice market.**

	Invested assets	Countries	Equity funds	Mixed funds	Bond funds	Retail structured products
Average annual TCO for a 5-year investment for retail investors (data as of 2020)	10 000 €	FR, IT & ES	2,04%	1,65%	1,15%	0,58%
		NL	client does not have access to the service			
		UK	client does not have access to the service			
	100 000 €	FR, IT & ES	2,04%	1,65%	1,15%	0,58%
		NL	client does not have access to the service			
		UK	2,51%	2,08%	2,23%	1,04%
	500 000 €	FR, IT & ES	2,04%	1,65%	1,15%	0,58%
		NL	1,93%	1,58%	1,58%	0,41%
		UK	2,51%	2,08%	2,23%	1,04%

Figure 1 : Average annual TCO for a 5-year investment for retail investors (data as of 2020).

An inducement ban entails a risk that retail investors will no longer be able to access valuable services and tools that intermediaries have put in place to improve investment services quality.

A ban of inducements on investment services would lead not only to depriving the intermediaries, and consequently the investor from having the choice between the two cost models as they exist today, but would **also exclude a large part of European investors from getting investment advice and/or additional protections provided by the added value services received** from distributors pursuant to the quality enhancement requirements.

Annual suitability assessments, suggested optimal asset allocation for the client based on its profile, global assessment for the client's personal situation, guided access to more tailored financial instruments, additional tools to take investment decisions, including on-line information tools and, comparative tools, multichannel solutions and even programs and interactive contents to develop financial literacy are some of the improvements that investors benefit from.

Within the regulatory framework above-described, the Commission-based model leads to quality enhancement. Therefore, shifting to the Fee-based model through a ban on inducements could mean that retail investors - or at least those with limited savings - would no longer receive the enhanced or additional services with which they are currently provided.

In addition, the new European regulatory framework that increases transparency to retail investors on ESG investments, intends to facilitate the sustainability and medium and long term-based investment decisions, for which the provision of investment advice to retail clients is a key tool. Decisions, such as a total ban of inducements, could diminish the provision of investment advice and, endanger the ultimate goal of boosting transparency and well-informed decision making by retail clients.

The Commission-based model does not prevent access to third-party products.

Intermediaries tend to offer a wide and varied catalogue of financial instruments to be made available to clients, including third party products.

The proportion of intermediaries that systematically offer a product range that includes **third-party products amounts, in the sample analyzed, to between 65% and 90%**, which in practice translates into a consolidated and growing trend.

In the Commission-based countries, the **additional effort stemming from the inclusion of third-party products in the catalogue has not represented an increase in the TCO.**

A ban on inducements, far from stimulating this trend, would discourage the offer of third-party products.

Intermediaries have also implemented robust systems for the prevention and management of potential conflicts of interest, which even go beyond the regulation itself, and guarantee investor protection.

Sales processes have been optimized to ensure compliance with the investment firm's duty to act honestly, fairly and professionally in accordance with the best interests of the clients. To achieve this, intermediaries properly identify and manage potential conflicts of interest, ensure transparency through the disclosure of costs and commissions to the client, set clear remuneration policies, and strengthen their internal governance framework.

European regulation should not restrict the freedom of retail investors to choose according to their preferences. A ban on inducements would shift the provision of investment services towards a Fee-based model for countries with a very different retail investor profile and whose practical effects threaten the improvements achieved in terms of service quality, inclusion, and accessibility.

Applying a "one-size fits all" approach will generate serious gaps in access to investment advice and added value services in most of the countries, while various studies show that **investors benefit from these services but are reluctant to pay explicit fees for them.**

A particular attention should also be paid to **differences in the level and structure of financial assets held by retail investors across Europe** before considering applying the same model all over the European Union. Not only the lower level of financial assets, but also the higher weight that cash represents, should be considered.

Financial asset of households (in €)

Conditional medians, according to ECB data (for EU contries) and UK Office for national Statistics (for the UK)

Figure 2 : Financial asset of households (in €).

Enormous capital inflows are needed to finance the transition to a green and digital economy. The Capital Markets Union rightly calls upon retail investors to participate in and benefit from this transition. A unique and common approach could prevent citizens from accessing financial instruments and thus would move away from this objective.

The Commission-based model can help to achieve this objective because it:

- **Provides access to financial instruments and investment services (including investment advice) at a reasonable cost**, regardless of the level of assets held by retail clients;
- **Provides enhanced or additional services** to help clients move from **savers to investors and** protects against inflation; **and**
- **Supports retail investors in their investment decisions while promoting financial literacy.**

All potential side-effects of a ban on inducements must be addressed.

It is important to stress that an advice gap and downgrade of the services received are not the only potential effects of a total ban on inducements.

Indeed, if fees paid by issuers/ manufacturers to intermediaries in connection with the issuances of financial instruments were treated as inducements when the placing agent also provides investment services to its retail or professional clients on the same financial instruments, then in case inducements would be prohibited, the placing agent, remunerated by the issuer/manufacturer for the underwriting and/or placing service(s) offered, would no longer be allowed to sell the financial instruments to clients other than eligible counterparties.

As a result, retail clients would either not have access to these financial instruments or they would have to purchase them through another eligible counterparty, which would increase their costs.

This shows, that all potential side-effects must be taken into consideration prior to proposing any amendment related to inducements.

2.

Why this Study?

The provisions of Directive 2014/65/UE (MiFID II) and the related level 2 texts which are in force since January 2018 have set forth a comprehensive and interconnected set of rules aiming at protecting the clients, especially retail clients, when investing in financial instruments. After three years, the European Commission is reviewing these investor protection rules as part of the Capital Markets Union Action Plan. Action 8 of this Plan includes an assessment of rules in the area of "inducements" which is included in European Commission's consultation on retail investment strategy[2]. The review is expected to be conducted during the year 2022. This is therefore a good opportunity to compare existing EU distribution models in terms of costs, quality of service and client protection, especially with respect to management of conflicts of interest.

In this context, a consortium of associations within the financial industry collaborated with KPMG to perform an analysis on the Total Cost of Ownership ("TCO") of financial instruments mostly distributed to retail investors under the two existing models: the **Fee-based model** and the **Commission-based model**, presented in section 3.

To perform this analysis, we started by examining the profile of retail investors and how the distribution channels operate before providing a comprehensive approach on costs borne by retail investors, taking into consideration the **cost of the products** (entry, ongoing, and exit costs) and the **costs of the services** involved when an investor enters into a transaction (mainly investment advice and execution of the transaction[3]).

With this comprehensive approach, the Total Cost of Ownership of a financial instrument for a retail investor can be used as a common ground for comparison of costs between the two different models.

Moreover, this report aims at providing a deeper understanding of the level of protection and added value services retail investors can benefit from under both models in the current MiFID II regime.

[2] Consultation from May 2021 to August 2021. See European commission website for more details: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12755-Retail-Investment-Strategy/public-consultation_en

[3] The "execution of the transaction" covers the two following investment services: (i) the reception and transmission of orders in relation to one or more financial instruments and/or (ii) the execution of orders on behalf of clients.

3

Scope and methodology

3.1 Scope

Half of Eurozone households hold less than 10 300€ in financial assets

On September 2020 the European Commission adopted a new Capital Markets Union Action Plan to ease money flows across the EU so that it can benefit customers, investors and companies. However, the level of participation by retail investors in capital markets remains very low compared to other developed economies. Therefore, to increase the attractiveness of capital markets for retail investors, the Action Plan requested more transparency, requiring clear and correct information to be provided, including information on the remuneration of the distributors, in order for savers to understand the costs of an investment.

Investor's protection, more specifically for non-professional clients[4] (e.g. retail clients) is a key pillar of the regulatory requirements under MiFID II. Accordingly, our Study focuses on the market for retail clients.

A more detailed portrait of investors in each participating country will be provided, but overall it is important to note that retail investors in Europe usually invest small amounts. Indeed, according to European Central Bank in its HFCS[5] Survey, the **median financial assets per household in the Eurozone is 10 300€.**

[4] As defined in MiFID II Directive and then transposed into local laws.

[5] European Central Bank, The Household Finance and Consumption Survey Wave 2017, May 2021.

Countries included in this Study

The Commission-based model is applicable in all countries in Europe except the Netherlands (which only represents 5% of the Eurozone population) and the United Kingdom.

In order to provide a concrete illustration of this model, three countries are included in the study for the Commission-based model: France, Italy and Spain[6], as they represent more than 52% of the population and approximately 50% of investments in Funds[7] in the Eurozone at the end of 2020 (see illustration aside).

Eurozone Population

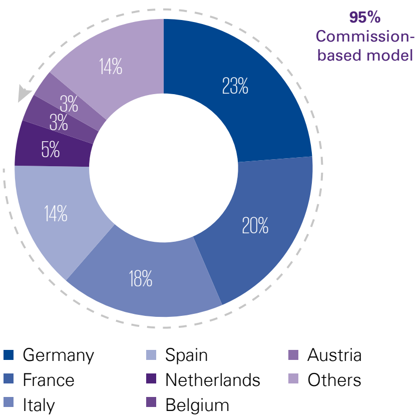


Figure 3 : Eurozone population breakdown by countries (%).

Scope of financial instruments:

This Study analyzes costs for funds that are generally included in financial instruments that are (i) the most representative of an average investment portfolio for a retail client according to ESMA's Annual Statistical Report on the Performance and Costs of EU Retail Investment Products of April 2021 **("ESMA Report 2021"): Equity funds, Bonds funds** and **Mixed funds , and financial instruments** or (ii) that contain a specific cost structure: **Retail Structured Products ("RSPs")** and **Exchange Traded Funds ("ETFs").**

The scope of this Study is limited to the commercialization of financial instruments through securities accounts. Therefore, insurance- based investment products and pension funds are excluded from the scope of this Study as their distribution is governed by Directives other than MiFID II, namely Directive 2016/97/EU (Insurance Distribution Directive - IDD) and Directive 2003/41/EC (Institutions for Occupational and Retirement provisions - IORP).

The cost structures for the above-mentioned financial instruments[8] also take into consideration certain specificities in local national markets in France, Italy, and Spain (please see the country specific sections for more information about these particularities).

UCITS retail market by asset size - 2019

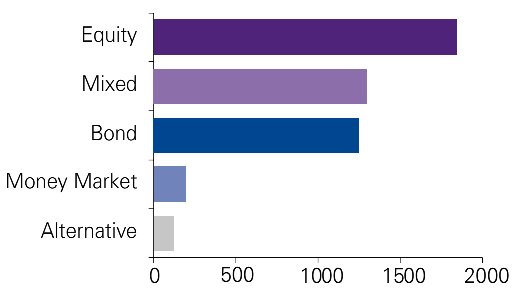


Figure 4 : UCITS retail market by asset size - 2019.

Note: EU UCITS universe, in terms of fund value by asset class, retail investors 2019, EUR bn.
Sources: Refinitiv Lipper, ESMA

[6] A specific report is also available for Germany (The future of advice: A comparison of fee-based and commission-based advice from the perspective of retail clients : https://hub.kpmg.de/the-future-of-advice)

[7] These figures do not include investment in financial instruments via insurance based investment products or pension funds.

[8] Product categories considered: According to the underlying investments, Equity, Bond and Mixed Funds have been agreed to constitute wide enough categories of funds corresponding to the most representative fund types in a retail investor's portfolio. We also analyze two other categories of financial instruments which contain a specific cost structure: Retail Structured Products ("RSPs") and Exchange Traded Funds ("ETFs").

3.2 Methodology

Two possible models: Commission-based and Fee-based models

MIFID I defined a first set of rules with respect to legitimate inducements paid by the manufacturer of a financial instrument to the distributor[9] provided that the quality enhancement and disclosure criteria were satisfied. For the purpose of this Study, we refer to this model as the **Commission-based model**.

In 2018, with the application of the MiFID II regulatory framework, a stricter regime was introduced, strengthening - inter alia - the quality enhancement requirements. In addition, inducements were totally banned for independent investment advice and individual portfolio management services.

Two European countries, the Netherlands and the United Kingdom, extended the ban of inducements to other investment services such as non-independent investment advice, execution of orders on behalf of clients or reception and transmission of orders in relation to one or more financial instruments (RTO). Intermediaries have to charge the investor directly for these services via separate fees. This model is referred to as the **Fee-based model** across this Study.

Note that although these two models are often considered as mutually exclusive to each other, they currently coexist in most European countries, except in the Netherlands and the United Kingdom.

TCO: a comprehensive approach to measure costs for retail investors

The literature on costs of financial instruments for retail investors is numerous, but publications often focus on "costs of products" to determine the variation or the level of costs a retail client bears when investing. This is the case in two recent papers: Morningstar's European Fee Study[10] and ESMA's paper on Performance and Costs of EU Retail investment Products[11] . This approach would need to be supplemented with additional information in order to have a more comprehensive view of costs incurred by retail clients when investing in different financial instruments. Indeed, clients most certainly bear the cost of the product, but they also bear the cost of the services provided to them. The cost of the services is represented by an explicit fee (in the Fee-based model) or by an implicit cost included in the amount paid for the product (in the Commission-based model). In the latter case, the implicit cost is paid to the distributor by the client via the manufacturer.

[9] See Glossary for definition

[10] Morningstar, European Fee Study, December 2020

[11] ESMA, Annual Statistical Report on Performance and Costs of EU Retail Investment Products, April 2021

The sum of the cost of the products and the costs of the related investment for services of a financial instrument for a retail investor is defined as the **Total Cost of Ownership**[12] ("TCO").

In addition, we also leverage on the TCO to understand the costs borne by the client when investing in ETFs since the passive management of ETFs is often seen as an alternative to investing in mutual funds.

Data showing the TCO for the Commission-based model detailed in the following sections come mainly from information collected by industry associations from some of their members. In some instances, we also leveraged from existing public information published by their trusted sources.

Other data comes directly from industry associations (ETFs' spread) and from the European Commission's publications (execution fees on ETFs for France, Spain, Italy, the United Kingdom, and the Netherlands). Data for Retail Structured Products ("RSPs") on acquisition costs and average term of the products comes from RegXchange[13] for France, Spain, the United Kingdom, and the Netherlands, and from members of the associations for Italy.

For the United Kingdom and the Netherlands, the data used for mutual funds comes from different information sources based on:

- Existing studies from local associations and public websites of distributors to determine the cost of investment advice (initial and ongoing) and other investment services;
- KIIDS information to determine the other costs included in the TCO (entry costs, exit costs and ongoing costs).

More details regarding the data collection process are presented in Appendix 4.

In the Commission-based model, commissions are allowed as long as they enable additional value for the client. Thus, via interviews and a specific questionnaire we have researched the nature of these value-added services now offered to clients.

Finally, we also collected information on how distributors have addressed the regulatory requirements towards conflicts of interest management which is one of the main concerns that MiFID II addressed in 2018 to ensure clients' protection.

[12] Please note: we haven't taken into account the possible impact of VAT on the costs.

[13] RegXchange is a free industry utility platform providing Key Information Documents (KIDs) and metadata and facilitating the exchange of MiFID II information. https://www.regxchange.com/

4

Overview of retailers and distribution channels in both models

In order to compare the two models, we started by providing an overview of who the retail clients are as well as the main characteristics of the distribution channels of financial instruments.

4.1 Commission-based model

Retail client characteristics

Low level of financial assets, near the Eurozone median

When considering the portrait of retail investors, it is important to note that the median level of financial assets for France, Italy and Spain is quite similar to the Eurozone level (10 300€) with respectively 11 000€ for France, 7 000€ for Italy and 9 000€ for Spain. In the Netherlands, the median of financial assets is twice as much with 22 400€, and in the UK 13 000€[14] .

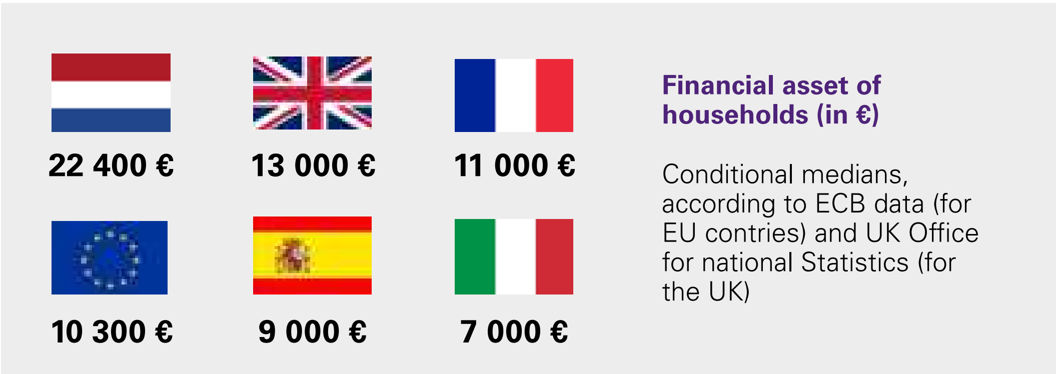


Figure 5 : Financial asset of households (in €).

[14] Financial wealth: wealth in Great Britain - Office for National Statistics (ons.gov.uk). Percentile 50 (median) 10 700 pounds. If applied the Exchange rate 1EUR/0,8588GBP as of end of August 2021 (source ECB) it will amount 12 459,24€

Heterogeneous composition of households' portfolio, but a clear preference for deposits

In all 3 countries, deposits are the most or one of the most significative parts of households' financial assets, despite the low level of interest rates.

In France, households mainly invest in insurance-based investment products (39%) followed by investment in shares (8,1%) and other types of financial assets (8%), while mutual funds (out of life insurance wrappers) only represent 4,7% of financial assets.

In Italy, investment in bonds is the 2nd largest part of invested amounts and mutual funds come into 3rd position with 11,4% of financial assets.

In Spain, households' investments are more diversified. The most significant banking product are the deposits, and their alternative in the financial instruments side, according to the family's preferences, are the other types of financial assets (20,2%), pension and life insurance products (14,6%), shares (13,6%) and mutual funds (9,9%).

Increasing saving rate due to the pandemic

According to Eurostat, the saving rate in European households has remained constant, around 14,5%, over the last ten years. Italy, Spain and the United Kingdom are systematically below the average; France and the Netherlands above.

Table - Shares of financial assets types on total financial assets
% of total financial assets

	euro area	ES	FR	IT
Deposits	43,7	34,4	38,6	52,1
Mututal Funds, total	10,8	9,9	4,7	11,4
Bonds	3,2	0,3	0,7	16,9
Shares, publicy traded	8,1	13,6	8,1	4,3
Money owned to households	2,3	7,1	0,8	0,2
Voluntary pension/whole life insurance	23,1	14,6	39,1	7,0
Other types of financial assets	8,9	20,2	8,0	8,2

Figure 6 : Table - Shares of financial assets types on total financial assets.
% of total financial assets

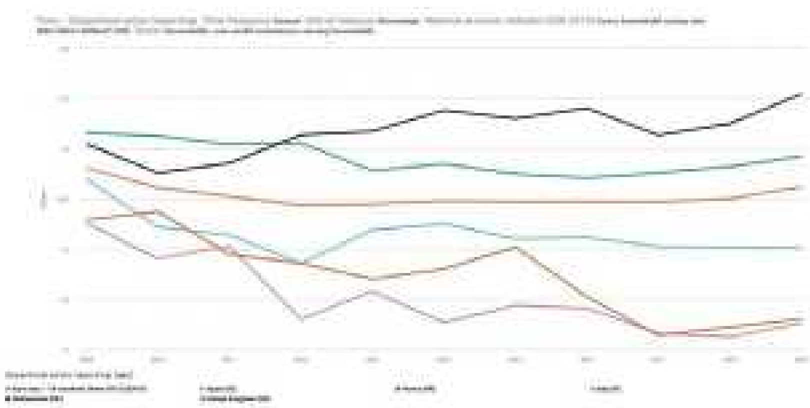


Figure 7 : Household saving rate.
Source: Eurostat (online data code TEC00121)

One of the major impacts of the recent pandemic, from a financial perspective, was the tremendous increase of the saving rates. Indeed, average saving rates of households in the Eurozone jumped close to 25% in the second quarter of 2020 (26,77% in France, 20,91% in Italy and 24,39% in Spain). Although they stabilized in the following quarter, the volume of savings remains above average, and thus it is expected to continue.

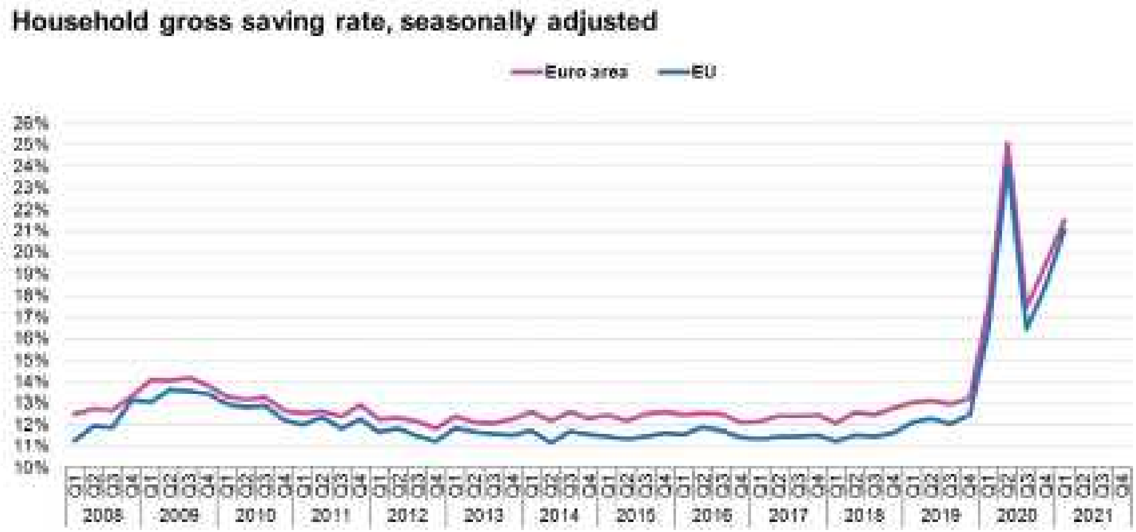


Figure 8 : Household gross saving rate, seasonally adjusted.
Source: Eurostat

As per the ECB's Economic Bulletin #5 of 2021, if saving rates are higher than usual, they mainly lead to an increase of deposits as a precaution.

Financial literacy of the retail investor needs to be improved

The predominance of deposits can be partially explained by the need to keep "money available" in an uncertain context due to the Coronavirus pandemic.

But isolating the impact of the pandemic, in the long-term other factors arise.

On the one hand, the fact that many people are risk-adverse.

On the other hand, retail investors still may not be aware of the potential returns on investment they could generate when investing in financial instruments. To illustrate this fact, this survey includes an Appendix 1 showing, for 10 000€, the impact, net of inflation and expenses, of a 10-year holding in cash (9 037€) versus investing the same amount in an equity UCITS (20 784€).

But indeed, both factors stem from the same cause: the need to improve financial literacy of retail investors.

As stated by European Commission (see "A Capital Markets Union for people and businesses-New action plan")[15], "Financial literacy is an essential skill for making good decisions about personal finances, but many people have not yet mastered it. People who are financially literate are also more likely to take advantage of possibilities provided by capital markets, including on sustainable investments".

Different surveys show also the same weaknesses of retail investors in France[16], Italy[17] and Spain[18], especially in women or in the lowest income percentiles.

To cope with this challenge, EC will assess the possibility of introducing a requirement for Member States to promote learning measures supporting financial education, in particular in relation to responsible and long-term investing (Action 7 of the new EC Action Plan).

Population ageing is becoming a major challenge

According to the EC 2021 Ageing Report[19], the demographic projections over the long-term reveal that the EU is 'turning increasingly grey' in the coming decades.

In several Member States, including France, Italy and Spain a decline of pension spending is projected over the long-term, as a result of past pension reforms, including measures reducing the benefit ratio and increasing the retirement age.

Private pensions would allow completing pensioners' income where available, and the need to foster them is clearly stated by EC in recent papers (see "A Capital Markets Union for people and businesses - New action plan")[20].

The characteristics of the European retail investor and the challenges that Europe society faces require a commitment to inclusive models.

The level of financial assets is low and mostly materialized in liquidity, despite historically low interest rates levels and the rise in inflation. As a result, retailers see their purchasing power eroded and lose the opportunity to monetize their savings.

This opportunity cost is especially detrimental in a long-term perspective, in which the needs for savings and investment for retirement converge with the financing of projects to transform companies towards a digital and green economy.

Inclusive models stimulate the movement of retailers from savers to investors, in addition to improving their financial skills of citizens, through investment advice and other value-added tools, which are the main gateway to financial education.

[15] 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 EUR-Lex - 52020DC0590 - EN - EUR-Lex (europa.eu)
[16] Les Français et les placements responsables - OpinionWay pour AMF, July 2021 (www.amf-france.org)
[17] The results of the Bank of Italy's 2020 survey, Bank of Italy, December 2020
[18] Financial education and savings decisions and investment: an analysis of the Spanish Financial Competency Survey (CNMVMarch 2021) https://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/Encuesta_de_comp_financ_ES.pdf
[19] The 2021 Ageing Report. Economic and Budgetary Projections for the EU Member States (2019-2070) (europa.eu) May 2021
[20] https://ec.europa.eu/info/business-economy-euro/growth-and-investment/capital-markets-union/capital-markets-union-2020-action-plan_en

Distribution channel characteristics

Retail investors can access investment services through different entities or distributors. This Study is focused on the distribution of financial instruments by banks and, in France, also through financial investment advisors (FIAs: French CGP/CIF[21]).

The retail banking model is one of proximity with its clients.

The current model in place for banks within the France, Italy and Spain is based on "proximity banking". This means banks having branches all over their territory, thus enabling close contact with their clients.

Location of branches across the countries is very important in order to avoid financial exclusion in areas with fewer or elderly populations, such as rural areas. Awareness of this issue and social pressure for maintaining branches open have led banks to develop alternatives to provide investment services where branches have been closed. In certain countries, those alternatives include part-time branches, mobile-branches (buses travelling to provide services), digital managers, among others. Human support through phone calls or emails is also available in most firms.

Proximity banking is supported by figures shown below:

Number of inhabitants (adults) per commercial bank branches

Source: The World Bank[22]

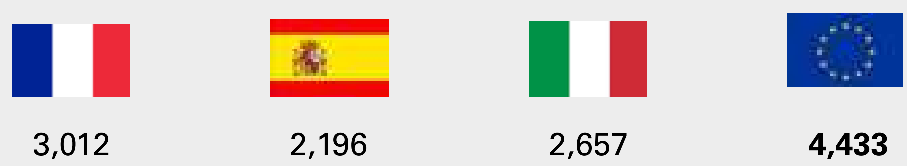


Figure 9 : Number of inhabitants (adults) per commercial bank branches.

According to the FBF in its publication of July 2021[23], the banking sector in France represents 337 banks with 35 837 branches totaling more than 354 000 employees at the end of 2020.

According to Bank of Italy, the Italian banking sector was made up of 474 banks: 59 groups (which include 303 banks), 90 individual banks and 81 branches of foreign banks, with 23 481 branches (local units), totaling more than 275 000 employees at the end of 2020[24]. All channels for the provision of investment services have been considered in-scope of the Study for the Italian market, covering physical or face-to-face channels, phone conversations and digital communications (by means of online-banking, app, email, etc.) and individual-tied agents. Therefore, we may speak of multichannel distribution.

[21] CGP: Conseillers en gestion de patrimoine / CIF: Conseillers en investissements financiers.
[22] https://datos.bancomundial.org/indicador/FB.CBK.BRCH.P5?name_desc=false
[23] French Banking Federation, Facts and figures, The French banking sector, July 2021.
[24] Bank of Italy, Banks and financial institutions: territorial structure, March 2021.

In Italy, investment advice is provided also outside the investment firms' premises (at the clients' domicile) through a dedicated financial advisor (tied agent under MiFID II framework) who is a physical person qualified to perform off-site activities (registered in a public register and subject to supervision). These financial advisors act on behalf of the banks and investment firms under public supervision. They are equal to 33 339 at the end of 2020.

In Spain, investment services may be provided by different types of entities: credit institutions, investment firms, a category that includes broker-dealers, brokers, portfolio management companies and financial advisory firms ("EAF"), and UCITS and AIF management companies. Credit institutions are by far the largest providers of investment services in Spain (CNMV Annual report 2020). According to ECB data, the banking sector is composed of 113 banks, with 22 392 bank branches or local units, sustained by 175 185 employees in the year 2020.

Qualified & face-to-face service:

As previously mentioned, the current model for banks within the three in-scope countries' financial market is based on "proximity banking".

Proximity banking allows investment services (included financial investment advice) to be performed on a face-to-face basis. In addition to suitability tests, conversations with clients indeed often take place, so as to better understand the client´s needs and expectations. Linked to this, long lasting relationships with clients and data collected from previous years, usually increase the knowledge of the clients, understanding of their needs and of the products that are best suited to them, allowing advisors to make more personalized recommendations. This is even more important for elderly clients and those who have lower degrees of financial literacy. Indeed, investment advice is provided by staff with high degree of competence and knowledge, which is annually reviewed by the employing entities, to ensure that staff holds appropriate qualifications and up-to-date knowledge and competence.

Digitalization still progressing

Since the 2008 financial crisis, banks have made significant efforts to improve their efficiency, rethinking the existing model of proximity banking and adapting their processes to new technologies arising in the financial markets. This transformation has been, in fact, accelerated by the Coronavirus pandemic. Nevertheless, digitalization must not be understood as mutually exclusive of the proximity model, but as a complementary tool that clients may want to choose to perform their investment operations.

As an example, the share of clients who could access current accounts through digital channels in Italy is 79%. Regional surveys conducted by the Bank of Italy indicate that approximately 80% of intermediaries believe that the spread of pandemic has pushed clients to make greater use of online financial services.

Almost all the larger intermediaries and a third of the smaller ones have planned or already undertaken projects related to technological innovation to allow digital access to the financial services they offer.

CGP in France

In France, financial investment advisors ("FIAs" – French CGP/CIF[25]) are natural or legal persons who advise and assist natural or legal persons in managing their assets in a way that is best suited to their individual circumstances, notably with respect to family status, professional activity, budget, and tax position. The FIA's main mission is to analyze the wealth of individuals and companies, to develop and propose strategies, to implement those strategies and monitor positions (for long-term advisory services) by selecting and providing investment solutions to their clients

According to the AMF report published in November 2020 (based on 2019 activity), independent FIAs representing 6% of all FIAs chose not to receive any commissions and are therefore compensated exclusively by the fees they receive from their clients. Non-independent FIAs are compensated mainly through commissions (84 % by entry and ongoing fees paid by manufacturers and, secondarily, through fees paid by their clients (16%)).

Considering that most revenues linked to FIAs are derived from commissions, we focused on the Commission-based model for purposes of this Study.

CGP, an hybrid remuneration model

After performing a wealth assessment and defining an investment strategy that are usually charged as a flat fee or calculated on a time-based evaluation, the CGP may offer to accompany the client in choosing among a multitude of financial solutions that best align with the client's objectives, investment profile and risk appetite. At this stage, CGPs have the option to offer two compensation models for investment advice: Commission-based and Fee-based models. After being informed of these two possibilities, the client is free to choose the model of compensation he/she favors.

[25] CGP: Conseiller en Gestion de Patrimoine / CIF: Conseiller en Investissement Financier

Entities excluded from the Study

In the context of this Study, for France, we did not include online brokers[26] and banks that provide access to financial markets and non-complex financial products through execution and RTO services.

For Italy, because banks carry out the majority of distribution activity to retail clients, this Study does not include investment firms ("Sim") and the management companies (the Italian "SGR"), which are authorized to provide portfolio management and investment advice services.

For Italy and Spain, the presence of alternative distribution models (e.g. via independent consultants) is still very limited thus this distribution channel has not been considered.

The characteristics of the current distribution model guarantee proximity and quality service for every client

Retail banking is based upon banks with large number of branches spread across territories, which allow retail clients to have access to investment services on a face-to-face basis, provided by qualified staff with a deep understanding of clients´ needs and knowledge.

In this sense, any modification or measure taken that could affect the current distribution model should balance the benefits and drawbacks that it could have for the accessibility and capillarity for retail clients.

[26] Online brokers do not represent a significant part of the distribution of financial instruments with investment advice as they are usually offering execution and RTO services only.

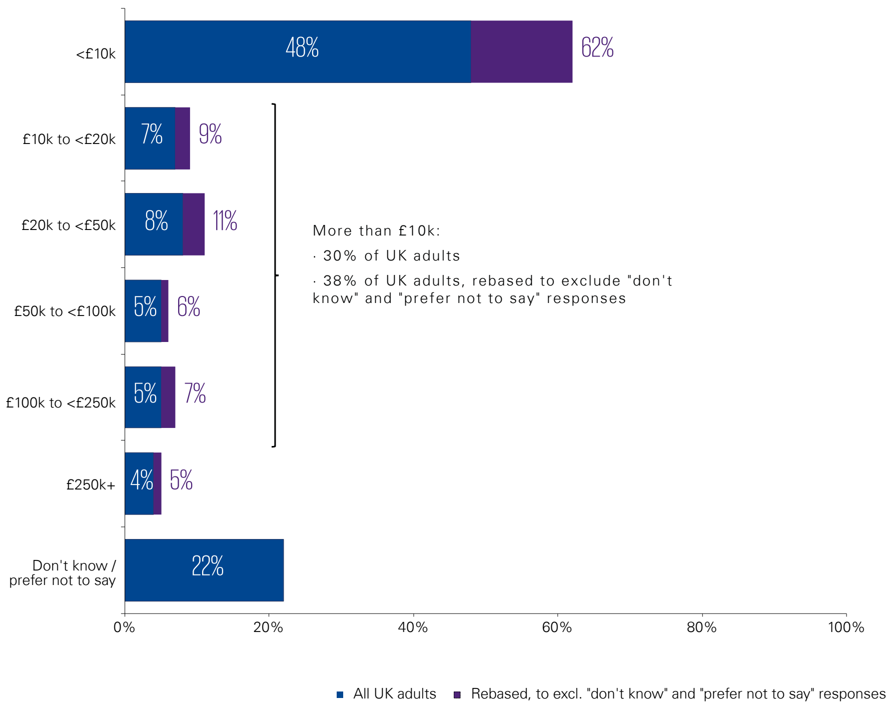
4.2 Fee-Based Model

The Case of the United Kingdom

A significant part of the United Kingdom retail clients does not have access to investment advice. 60% of retail clients have less than 10 000£ in investible assets and only 12% have more than 100 000£.

The 2020 Financial Conduct Authority (FCA) report mentions the proportion of the United Kingdom adults according to their investible assets: more than 60% of the United Kingdom adults (exclusion of adults who don't know or prefer not to say) have less than 10 000£ (11 644€)[27] in investible assets; 25% have between 10 000£ and 100 000£ (11 664€ to 116 442€) in investible assets and 12% have more than 100 000£ (116 442€) in investible assets.

Proportion of UK adults with £10,000 or more in investible asset, 2020



InvestAssets. B11 summary - investible assets
Base: All UK adults (2020: 16, 190); All UK adults (2020: 16, 190) excluding "don't know" and "prefer not to say" responses (22%)

Figure 10 : Proportion of UK adults with £10,000 or more in investible asset, 2020.

[27] Exchange rate: 1EUR/0,8588GBP as of end of August 2021, source ECB
https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/index.en.html

According to the same report, c**lients that benefit from investment advice have on average over 150 000£ (174 662€) of assets under advice[28].**

In addition, it appears that only 8% of the United Kingdom adults (4,1 million) received regulated investment advice over a 12-month period from January to December 2020. This rate grows with the wealthiness of clients as illustrated by figures below:

- 17% of the United Kingdom adults with 10 000£ to 100 000£ (11 644€ - 116 442€) in investible assets took regulated advice;
- 25% of the United Kingdom adults with between 100 000£ and 250 000£ (116 442€ - 291 104€) of investible assets received regulated advice; and
- 38% of the United Kingdom adults with more than 250 000£ (291 104€) in investible assets received regulated advice.

Based on the FCA's report, we note that the ability to benefit from advice and guidance increases with wealth. The table below illustrates this trend and details the proportion of the United Kingdom adults according to the type of advice and invested assets.

Below 100 000£, more than 50% of the United Kingdom adults do not receive any advice.

Proportion of UK adults who have received regulated financial advice and / or guidance related to investments, saving into a pension or a retirement planning in the last 12 months by investible asset band, 2020

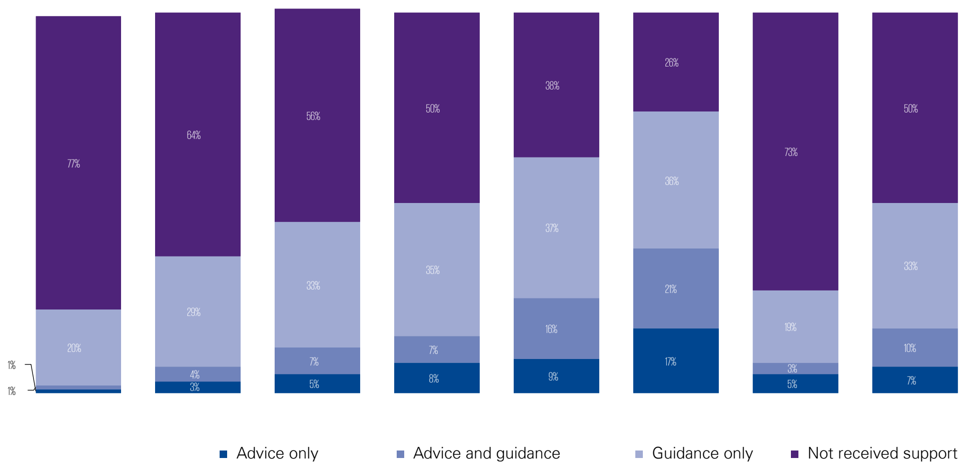


Figure 11 : Proportion of UK adults who have received regulated financial advice and / or guidance related to investments, saving into a pension or a retirement planning in the last 12 months by investible asset band, 2020.

[28] Financial Conduct Authority: Evaluation of the impact of the Retail Distribution Review and the Financial Advice Market Review, December 2020, page 3.

Access to advice via financial investment advisors and platforms for retail clients

According to FCA Sector Views 2020, the distribution of financial instruments to retail clients covers different channels, including financial investment advisers (FIAs), wealth managers and platforms. **Banks** are not represented because they **no longer provide investment advice since the ban on inducements** (in the frame of the Retail Distribution Reform) in 2013.

This Study focuses on FIAs as distribution channels representative of mass retail clients. There are also advisors through platforms, which we decided to exclude from the Study as they are not representative of the investment advice market in the United Kingdom for now.

Wealth managers provide highly tailored services and advice to high-net-worth individuals and thus are excluded from the scope of this Study, as well.

The case of the Netherlands

With 50% of the population holding up to 22 400€ of financial assets, this is twice as high as the European Median (10 300€)

According to a 2020 AFM/IPSOS Report, a quarter (24%) of investors in the Netherlands have a portfolio worth less than 5 000€, one in five (17%) has a portfolio worth 50 000€ or more, including only 8% of investors with a portfolio above 100 000€.

Based on data from the Household Finance and Consumption Survey (HFCS), the financial assets are composed of deposits (39,5%), pension funds and insurance-based investment products (24,2%) and mutual funds (19,8%).

Only banks provide investment advice but subject to a minimum amount of investible assets

The primary distribution channel in the Netherlands is banks which represented 65% of distribution channels for investors according to the 2020 AFM/IPSOS report. Independent Financial Advisors ("IFAs") are excluded from distribution channels for investment advice to mass retail.

According to the 2018 European Commission Final Report of Distribution Systems of Retail Products across the European Union, the investment advice landscape in the Netherlands is quite different from other Member States. Indeed, they almost exclusively offer discretionary portfolio management services, and only offer investment advice to clients having large portfolios. Retail clients seeking investment advice are now redirected by IFAs to banks and insurance firms and **thus do not appear to receive investment advice through this channel**.

5.

Costs analysis

5.1 Commission-based model

When the Commission-based model is applied, the distributor of a financial instrument receives a remuneration from the manufacturer which generally corresponds to a percentage of the product cost sold to the end client. In exchange for such remuneration, the distributor provides investment advice and/or other investment services with enhanced/additional services to his clients. To illustrate this mechanism, we have examined for each of the three countries the enhanced/additional services offered to the clients.

What advice or services do clients get?

Respondents among members of the associations explained that when providing investment advice, they offer a personalized recommendation based on suitability criteria in accordance with MiFID II requirements.

In its study from May 2020, the French Autorité des Marchés Financiers (AMF) analyzed the rules implemented by banks for matching client profiles with financial instruments as part of an investment advice service. Banks use computer-based tools whose main function is to profile clients, mainly according to their client's risk tolerance and level of knowledge and experience. The tools provide guidance in various forms depending on the institution, which may include target risk level, typical asset allocation, and recommended financial instruments.

This guidance enables advisers to issue an investment advice, but they remain responsible and free to follow, or not, the recommendation provided by the tool, putting advisers in the central place of the distribution channel.

In France, financial investment advisors ("FIAs") offer their clients assistance in choosing multiple financial solutions. When providing investment advice, the FIA will also ascertain the risk appetite of the client in order to decide on the most appropriate portfolio strategy and investment.

Long-term advisory services include monitoring positions, which require FIAs to have knowledge of financial instruments, in order to analyze the suitability of these instruments in relation to the client's profile and objectives and to act in the best interest of the client by avoiding a conflict of interest.

Throughout the life of the investment, FIAs – as part of their advisory duties – provide added value services, including:

- Analysis and comments on the results of the statements received by the client (performance analysis and details of fees);
- Telephone hotline service for any questions the client may have about his or her investments and their evolution;
- Advice on maintaining funds or advice on arbitration according to the economic environment or the client's future projects;
- Advice to possibly change intermediaries if the institution proves to be deficient or if the service provided is not satisfactory;
- If a management mandate is given to an intermediary, verification of the adequacy between the funds proposed and the client's risk acceptance profile - applicable for financial advisors only.

Regarding Italy, due to the supervisory approach adopted by the national competent authority (Consob) since the entry into force of MiFID in 2007, the service model prevalent in the Italian market is based on investment advice: in fact, because of this supervisory approach, most intermediaries combine investment advice with execution services (execution of orders or RTO).

This means that the contractual relationship between intermediaries and retail clients provides that investment advice covers almost all the transactions.

Therefore, retail clients operate under the appropriateness regime in very limited cases (much more limited than those provided by MiFID II) which are contractually identified on the basis of the specific features of the business model adopted by each intermediary. For example, this happens for online trading.

In Italy, investment advice is mostly provided on a "non-independent" basis and it:

- covers a wide range of suitable financial instruments, including an appropriate number of financial instruments from third-party manufacturers / issuers without close ties to the distributor ("open-architecture");
- includes not only financial instruments but also Insurance Based Investment Products (IBIPs);
- is generally provided with a portfolio approach, which means that the suitability assessment is based on the consideration of the client's financial assets as a whole;
- provides at least an annual assessment of the suitability of the financial instruments in which the client has invested (included through IBIPs) with his/her investment profile.

The combination of the investment advice with the execution services is mainly provided without charging a specific fee with respect to investment advice, consistently with the behavioral attitude of Italian investors not to pay an explicit fee for investment advice. Indeed, according to a survey by Consob[29], only 32% of clients are willing to pay for investment advice.

In Spain, prior to MiFID II implementation, the majority of retail investors were not advised clients. They mainly operated through the reception and transmission of orders service accessing to a mostly in-house catalogue of financial instruments.

Investment advice provided in Spain presents the following characteristics:

- There is no minimum investment amount to access investment advice;

- Retail clients shift to non-independent advice due to the lack of a minimum investment threshold. Conditions established for the collection of inducements in Spain leaned entities' efforts on upgrading their services scheme towards non-independent advisory models. Advised clients have increased by 136%, going from 1.1 million in 2017 to 2.6 million in 2020;

- Access to open architecture not only in the catalogue offer (at least in one distribution channel) but also in terms of effective investment in third party products. Data collected show a product catalogue of more than 90% of third-party products through at least one channel, and that close to 25% of the funds distributed are third-party products;

- Allows access to enhanced quality services. In line with the conclusions stated in France and Italy, the expansion of investment advice has extended the implementation of added-value services exceeding mere compliance with regulatory requirements. Moreover, retail investors that remained on RTO or execution only services are provided with added-value services consisting of access to third-party products and additional tools to take better investment decisions and follow them;

- Advisors give personal support to retail clients. Advisors with duly accredited competencies, together with the increase of transparency, are providing better information contributing to financial education of retail clients. Clients under RTO services receive reports and tools developed for their better knowledge and comparison of the financial instruments.

To summarize, in France, Italy and Spain, there are no minimum thresholds of investible assets required to access investment advice.

According to data gathered from local distributors, clients can receive non-independent investment advice from 0€ of investible assets, having access to face-to-face personalized advice and covering a wide range of financial instruments offer including third-party products.

This plays an important role in the financial education process; giving retail investors a free and easy access to investment advice via a personalized relationship with a human advisor contributes to their financial learning process.

In addition, clients with a very high level of investible assets, can chose to receive non-independent investment advice (under the Commission-based model), or if they prefer, they can receive independent investment advice and then pay an up-front fee (although this model is not significant in any of France, Italy and Spain).

Therefore, investment firms have generally sophisticated and improved the professionalization of non-independent

[29] Consob, Report on financial investments of Italian households by Consob, December 2020.

investment advice services to retail clients since the MiFID II transposition without considering the thresholds of investible assets.

This sophistication is materialized in different measures which are further explained within the course of this Study:

- A combination of the possible MiFID II alternatives to comply with the "quality enhancement" requirements in order to implement a tangible upgrade of the investment advice model. For example: the combination of access to third-party products together with the on-going monitoring of the suitability of the financial instruments recommended;

- Additional added-value services not directly contemplated by the regulation. For example: digital tools to allow the client to interact with the investment firm or receive complete information about financial instruments, complementary types of advice related to the client's portfolio (such as tax advice, or asset allocation);

- Implementation of open architecture financial instruments catalogues, increasing the proportion of third-party products offered to retail investors (mainly in Spain and Italy);

- Providing suitability assessment with a portfolio approach which in some countries includes also insurance-based investment products;

- Providing investment advice outside the investment firms' premises (at the clients' domicile) through a dedicated financial advisor who is a physical person qualified to perform off-site activities (registered in a public register and subject to supervision);

- Improving the client's financial awareness and knowledge based on a higher specialization of banking professionals and financial advisors with more ambitious training programs compared to MiFID II requirements.

Total Cost of Ownership for mutual funds in the Commission-based countries: France, Italy and Spain

The cost of mutual funds has been steadily declining across Europe in recent years. This has been shown by a number of surveys coming both from the industry[30] and from other official sources[31] .

Even if this trend is expected to go on in the future, the goal of the table below is to present a snapshot of the average and total costs based on the data collected for France, Italy and Spain, on three types of mutual funds (equity, bond, and mixed funds)[32] .

Average rates for France, Italy and Spain	Equity funds	Bond funds	Mixed funds
	%	%	%
A - Entry costs	**0,69%**	**0,41%**	**0,61%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	0,69%	0,40%	0,61%
B - Ongoing costs	**1,90%**	**1,07%**	**1,53%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	0,93%	0,53%	0,77%
C - Exit costs	**0,00%**	**0,02%**	**0,00%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	0,00%	0,00%	0,00%
D - Execution fees	0,00%	0,00%	0,00%
Total Cost of Ownership [A+B+D] - 1st year	**2,60%**	**1,48%**	**2,14%**
Total Cost of Ownership [B] - Next years	**1,90%**	**1,07%**	**1,53%**
Total Cost of Ownership per annum for a 5-year investment	**2,04%**	**1,15%**	**1,65%**
Of which cost of services	**1,07%**	**0,61%**	**0,90%**
Of which cost of financial instrument	**0,97%**	**0,55%**	**0,75%**

Figure 12 : Total Cost of Ownership for mutual funds in the Commission-based countries: France, Italy and Spain.
Sources: see detailed sources and methodology in appendix 4.
Please note: due to rounding in the cells, the total may appear to be different than the sum of its parts.

[30] The cost of UCITS has been steadily declining across Europe in recent years. The costs of actively managed equity and bond funds decreased by 11% and 18%, respectively, between 2016 and 2020. (Efama fact book 2021)
[31] See detailed sources and methodology in Appendix 4
[32] Under the Commission-based model it is usual to offer cheaper asset classes to high investment amounts. Therefore, the TCO decreases as the amount invested increases. For simplicity reasons we have considered an average and not made distinctions in this regard. Thus, when comparing the TCO in the Commission-based countries against the TCO in the Fee-based countries where the amount invested is very high, it should be borne in mind that those clients would have been able to invest in cheaper classes in the Commission-based model, reaching to a lower TCO than the one shown in this study.

For equity funds, the Total Cost of Ownership for the first year of investment is 2,60%, of which 0,69% in entry costs and 1,90% in ongoing costs.

For the following years, the Total Cost of Ownership of 1,90% corresponds only to ongoing costs (including commissions to distributor).

The results calculated over a 5-year investment period on equity funds show a Total Cost of Ownership per annum representing 2,04%, of which 1,07% in costs of service and 0,97% in costs of financial instrument.

The entry costs charged to retail investors are fully retroceded to the distributor. The retrocession rate to distributor on ongoing costs results in an average of 49%. There are no exit costs charged on equity funds.

For bond funds, the Total Cost of Ownership for the first year of investment is 1,48%, of which 0,41% in entry costs and 1,07% in ongoing costs.

For the following years, the Total Cost of Ownership of 1,07% corresponds only to ongoing costs (including commissions to distributor).

The results calculated over a 5-year investment period on bond funds show a Total Cost of Ownership per annum representing 1,15% per annum, of which 0,61% in costs of service and 0,55% in costs of financial instrument.

The entry costs charged to the retail investors are almost totally retroceded to the distributor. The retrocession rate to distributor on ongoing costs results in an average of 49%. The exit costs are not significant.

For mixed funds, the Total Cost of Ownership representing for the first year of investment is 2,14%, of which 0,61% in entry costs and 1,53% in ongoing costs.

For the following years, the Total Cost of Ownership of 1,53% corresponds only to ongoing costs which include commissions to distributor.

The results calculated over a 5-year investment period on mixed funds show a Total Cost of Ownership per annum representing 1,65% per annum, of which 0,90% in costs of service and 0,75% in costs of financial instrument.

The entry costs charged to the retail investors are fully retroceded to the distributor. The retrocession rate to distributor on ongoing costs results in an average of 51%. There are no exit costs charged on mixed funds.

Total Cost of Ownership for Retail Structured Products in the Commission-based model: France, Italy and Spain

Retail Structured Products ("RSPs") are financial instruments, the performance of which depends on the performance of an underlying financial instrument, usually equities, indices, rates, commodities, foreign exchanges rates or other asset classes.

RSPs are, by nature, portfolio diversification tools, because they usually offer some form of downside protection (such as a full protection of invested capital or conditional principal protection features).

They have been issued since the late 90s in most European markets. In 2020, RSPs bought by retail investors in the 5 countries of this Study represented volumes of 32 billion euros, split as follows:

Amount in billion €	France	Italy	Spain	UK	Netherlands	Total
2020	12.9	13.6	4.3	1.1	0.1	32.0

Figure 13 : Amount of RSPs bought by retail investors in 2020 (€Bn).

In the European Union, the total volume of RSPs bought by retail investors is estimated between 80 and 90 billion euros in 2020.

The cost of a RSP takes the form of a gross one-off entry cost defined prescriptively by MIFID II as the difference between the financial instrument offer price and its fair value. This entry cost is paid by the investor upfront, upon subscription, and usually there are no other subsequent ongoing costs during the life of the RSP and until its maturity.

It must be noted that this study focused on retail structured products in the form of structured notes, not funds. The main features are an upfront fee charged at the issuance of the note, with little to no ongoing cost and predominantly "autocall" products.

The table below presents the average costs based on the data collection from three countries: France, Italy and Spain.

Average rates for France, Italy and Spain	RSPs
	%
A - Cost of advice in the Fee-based model Initial	n/a
B - Acquisition costs = Gross one-off costs (Ask price - Fair value)	2,91%
Of which commissions to distributor = cost of advice and/or additional/higher level services	1,79%
C - Total Cost of Ownership [A+B]	**2,91%**
D - Average term of the structured products in years*	6,1
Total Cost of Ownership per year [C/D]	**0,47%**
Total Cost of Ownership per annum for a 5-year investment	**0,58%**
Of which cost of services	**0,36%**
Of which cost of financial instrument	**0,22%**

Figure 14 : Total Cost of Ownership for Retail Structured Products in the Commission-based model: France, Italy and Spain.

For the Retail Structured Products, the Total Cost of Ownership for the first year of investment is 2,91%. Considering an average holding period of 6,1 years, the cost per annum would be 0,47%.

The results calculated for a 5-year investment on RSPs show a Total Cost of Ownership representing 0,58% per annum, of which 0,36% in costs of services and 0,22% in costs of financial instrument.

The retrocession rate to distributor on Acquisition costs results in an average of 61%.

5.2 Fee-based Model

The Fee-based model is a remuneration mode where the retail investor pays directly to the distributor a fee in exchange for the provision of investment advice and/or other investment services.

The case of United Kingdom

What advice or services do clients get?

Investment advice comes at a certain cost

According to the FCA Evaluation of the Impact of the Retail Distribution Review and the Financial Advice Market Review (December 2020), we understand that advisers usually charge a percentage-based fee on the value of assets under advice. R**esearch by the FCA shows that the average charges are 2,4% of the amount for the initial advice and 0,8% per annum for ongoing advice**. These fees do not include underlying financial instruments and portfolio charges, such as custody and execution fees.

What advice or services do you get?

As part of this Study, we have managed to identify through interviews with the Investment Association ("IA" - the United Kingdom's national association representing investment managers), that the level of investment advice that the United Kingdom clients receive are dependent upon their amount of investible assets:

- Retail clients with investible assets of 100 000£ (116 442€) or more receive a **high level of advice**, with face-to-face investment advice including a detailed risk assessment, in-depth suitability questionnaires, cashflow and tax planning and a Centralised Investment Proposition ("CIP") that is commonly a model portfolio of funds managed on an advisory basis or outsourced to a discretionary fund manager ("DFM"). These clients are typically 55 years of age or higher with complex tax, pension or retirement income needs;

- Retail clients with investible assets between 50 000£ (58 221€) and 100 000£ (116 442€) are less well catered to by advisers. Advisers do not change the level of advice fees for less wealthy clients, but they may offer different services such as a transactional service rather than ongoing services. Some advisers will operate a flat fee model, which could also be more attractive for clients with less complex needs. They may also be more inclined to use an investment solution such as a multi-asset fund or fund of fund as the CIP, rather than a model portfolio of funds, which reduces the fee paid by the client for the investment management service. Advisers are less likely to take on clients with less than 100 000£ because the fees have a more significant impact on their assets under advice, making it less economical for the client. Other advisers will only take on less- wealthy clients if they are the children of existing clients;

- Retail clients with investible assets of up to 50 000£ (58 221€) receive **limited or no investment advice**. Such clients are either advised by robo or streamlined advisors or they self-fulfill the orders without advice through direct investment platforms (i.e. "do it yourself" clients / non-advised). Services received include select lists of funds provided by the platforms to help them make investment choices, investment solutions such as multi-asset funds and ready-made portfolios of ETFs provided by many robo-advisers. It should be noted that some DIY investors are wealthy but prefer to manage their own portfolios rather than taking advice and that advised investors may also manage some of their investments on a DIY basis.

In other words, United Kingdom retail clients with less than 100 000£ of investible assets are unlikely to receive per se investment advice.

Total Cost of Ownership for mutual funds in the Fee-based model in the United Kingdom.

Presented below is an evaluation of the TCO using 2019 information from the FCA report on the Evaluation of the Impact of the RDR and FAMR dated October 2020 for the cost of advice.

United Kingdom in %	Equity funds	Bond funds	Mixed Funds
	%	%	%
A - Cost of advice in the Fee-based model Initial	**2,40%**	**2,40%**	**2,40%**
A' - Cost of advice in the Fee-based model ongoing	**0,80%**	**0,80%**	**0,80%**
B - Entry costs	**1,64%**	**0,50%**	**0,44%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	n/a	n/a	n/a
C - Ongoing costs	**0,90%**	**0,85%**	**0,71%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	n/a	n/a	n/a
D - Exit costs	**0,00%**	**0,00%**	**0,00%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	n/a	n/a	n/a
E - Execution fees	**0,00%**	**0,00%**	**0,00%**
Total Cost of Ownership [A+B+C+E] - 1st year	**5,74%**	**4,55%**	**4,35%**
Total Cost of Ownership [A'+C] - Next years	**1,70%**	**1,65%**	**1,51%**
Total Cost of Ownership per annum for a 5-year investment	**2,51%**	**2,23%**	**2,08%**
Of which cost of services	**1,28%**	**1,28%**	**1,28%**
Of which cost of financial instrument	**1,23%**	**0,95%**	**0,80%**

Figure 15 : Total Cost of Ownership for mutual funds in the Fee-based model in the United Kingdom.
Sources: see detailed sources and methodology in appendix 4
Please note: due to rounding in the cells, the total may appear to be different than the sum of its parts.

As the FCA data refers to 2019 fieldwork, we have confronted the figures with different sources such as the 2020 Langcat report, various UK financial information websites and local industry associations. We noted that initial fee for advice appears to range between less than 2% and more than 3% and could be measured on average at 2%. For ongoing fee for advice, we observed an average around 0,80%[33].

Based on data collected from KIIDs[34], most mutual funds in the United Kingdom do not charge entry costs. The entry costs concern only some mutual funds with a rate of 4% or 5%. Our calculation shows entry costs ranging from 0,44% on mixed funds to 1,64% on equity funds and 0,5% on bond funds.

In addition, it is very rare for mutual funds in the United Kingdom to charge an exit cost.

The average ongoing costs of 0,71% on mixed funds include two tracker funds which propose a rate of 0,22% based on a passive management model.

Total Cost of Ownership for Retail Structured Products (RSPs) in the Fee-based model: the United Kingdom

Average rates for the United Kingdom	RSPs
	%
A - Cost of advice in the Fee-based model Initial	**2,40%**
A' - Cost of advice in the Fee-based model ongoing	**0,00%**
B - Acquisition costs = Gross one-off costs (Ask price - Fair value)	**2,82%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	n/a
C - Total Cost of Ownership [A+B]	**5,22%**
D - Average term of the structured products in years*	**7,41**
Total Cost of Ownership per year [C/D]	**0,70%**
Total Cost of Ownership per annum for a 5-year investment	**1,04%**
Of which cost of services	**0,48%**
Of which cost of product	**0,56%**

Figure 16 : Total Cost of Ownership for Retail Structured Products (RSPs) in the Fee-based model: the United Kingdom.
Sources: see detailed sources and methodology in appendix 4.
Please note: due to rounding in the cells, the total may appear to be different than the sum of its parts.
(*) The maturity is the initial maturity at the issuance of the RSPs.

In the United Kingdom, RSPs issued in 2020 show an average Total Cost of Ownership at 5,22% from FCA report with an average term of 7,41 years. Entry costs increased in the United Kingdom in 2020 compared to 2019 due to higher costs resulting from the impacts of COVID-19.

[33] See example of additional external sources on Bibliography.
[34] More details in appendix

The case of the Netherlands

What advice or services do clients get?

According to studies[35] conducted by DUFAS on investment advice in the private banking sector, nowadays the minimum threshold of investible assets necessary to benefit from investment advice effectively amounts to an average of 500 000€, which de facto excludes mass retail clients. Indeed, most of large Dutch banks offer investment advice services only to private banking clients starting from 500 000€ of net investable assets and no longer offer investment advice for the retail market. Below such threshold, the possibility of obtaining investment advice is almost nonexistent.

In addition, we see the emergence of a new offer for mass retail clients limited to non-advised sales through digital tools to help them make their investment choices. Therefore, nowadays retail clients appear to trade through low-cost digital trading platforms/apps.

According to the AFM / IPSOS report of April 2020, which presents behaviors and attitudes towards the investment portfolio and the way investments are made, the inducements ban which entered into force on January 01, 2014, has impacted the provision of investment advice in the Netherlands. As we can see from the graph below, the proportion of investors using AM investment advice ("through asset managers" curb) declined from 20% (Q1 2014) to 11% (Q3 2020) while individual portfolio management grew from 21% to 30% through Financial Advisors over the same period. The curve on execution of orders on behalf of clients and RTO services ("Independent" curb) appears to be quite stable with 59% over the period.

Main mode of investment (in %) in the Netherlands from 2013 to 2020.

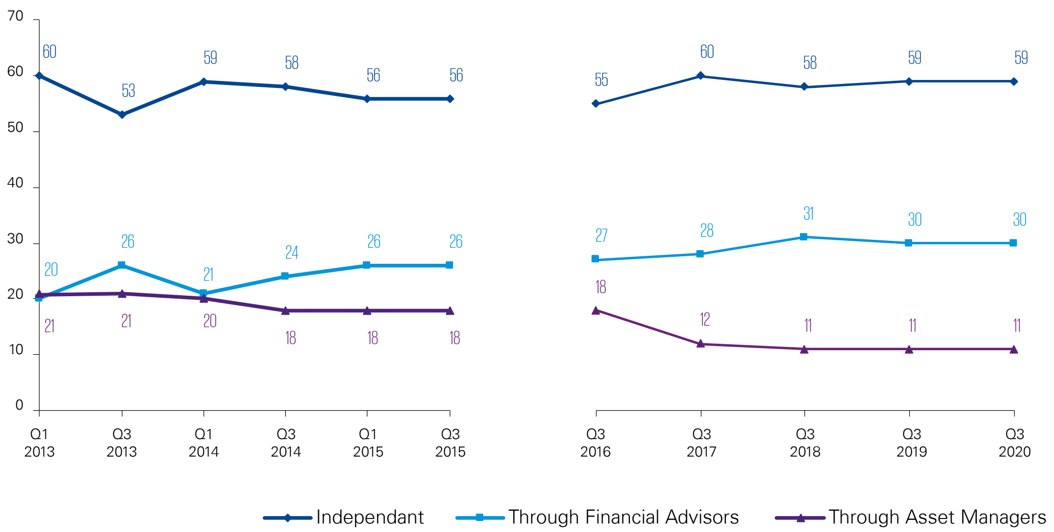


Figure 17 : Main mode of investment (in %) in the Netherlands from 2013 to 2020.
Source: IPSOS 2020

[35] DUFAS: Discussion note inducements ban in the Netherlands (31 January 2020) and DUFAS note - Survey Advisory Fees: Thresholds & advisory fees seven major Dutch Private Banks February 2021. Both notes are non-public

Different practices depending on the financial instruments distributed

When investing in mutual funds, according to a local industry association, investment advice fees differ from one bank to another, ranging from 0,20% to 1% per year based on the advisory services provided and the amount of assets held. Most banks offer investment advice services starting from 500 000€ of investible assets.

- The fees vary based on the advisory service provided and may differ in each bank;
- The fees vary also regarding the amount of assets held;
- Frequent advice on individual shares results in fees that are much higher than occasional advice on a limited number of mutual funds.

To determine the cost of investment advice in the Netherlands, we collected data from a local industry association. The data collection is based on 5 major Dutch banks. In addition, we used data from public websites where we collected ex-ante data of 2 additional major Dutch banks.

Based on our information sources, the general trend raised on cost of advice is close to 1% (included VAT) and the threshold of 500 000€ is applied by most banks except for two banks which mention a minimum of 100 000€ and 1 000 000€. In addition to this, some banks implement minimum fees that differ from one bank to another. We have not observed fees for initial advice.

For retail structured products (RSPs), elements from RegXchange and based on a sample of three distributors representing more than 40% of the total outstanding volume of RSPs, the average[36] cost for investment advice and other services amounted to 1% upfront.

[36] The distributors provided RegXchange their aggregate distribution fee and the latter calculated a simple average from the data collected.

Total Cost of Ownership for mutual funds in the Fee-based model: the Netherlands

Please note that due to the thresholds previously mentioned regarding access to investment advice, the following figures are to be considered for an investor with at least 500 000€ of net investible assets.

Banks + AM (data collection)	Equity funds	Bond funds	Mixed Funds
	%	%	%
A - Cost of advice in the Fee-based model Initial	n/a	n/a	n/a
A' - Cost of advice in the Fee-based model ongoing	**1,00%**	**1,00%**	**1,00%**
B - Entry costs	**1,29%**	**0,45%**	**0,05%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	n/a	n/a	n/a
C - Ongoing costs	**0,67%**	**0,48%**	**0,56%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	n/a	n/a	n/a
D - Exit costs	**0,03%**	**0,03%**	**0,03%**
Of which commissions to distributor = cost of advice and/or additional/higher level services	n/a	n/a	n/a
E - Execution fees	**0,00%**	**0,00%**	**0,00%**
Total Cost of Ownership [A+B+C+E] - 1st year	**2,96%**	**1,93%**	**1,61%**
Total Cost of Ownership [A'+C] - Next years	**1,67%**	**1,48%**	**1,56%**
Total Cost of Ownership per annum for a 5-year investment	**1,93%**	**1,58%**	**1,58%**
Of which cost of services	**1,00%**	**1,00%**	**1,00%**
Of which cost of financial instrument	**0,93%**	**0,58%**	**0,58%**

Figure 18 : Total Cost of Ownership for mutual funds in the Fee-based model: the Netherlands.
Sources: see detailed sources and methodology in appendix 4.
Please note: due to rounding in the cells, the total may appear to be different than the sum of its parts.
Nota bene: the 1% fee for advice in VAT included.

In the Netherlands, most mutual funds mention exit costs close to 0%.

Total Cost of Ownership for Retail Structured Products in the Fee-based model: the Netherlands

Please note that due to the thresholds previously mentioned regarding access to investment advice, the following figures are to be considered for an investor with at least 500 000€ of net investible assets.

Average rates for the Netherlands	NL
	%
A - Cost of advice in the Fee-based model Initial	1,00%
B - Acquisition costs = Gross one-off costs (Ask price - Fair value)	1,06%
Of which commissions to distributor = cost of advice and/or additional/higher level services	n/a
C - Total cost of ownership [A+B]	2,06%
D - Average term of the retail structured products in years*	6,06
Total Cost of Ownership per year [C/D]	0,34%
Total Cost of Ownership per annum for a 5-year investment	0,41%
Of which cost of services	0,20%
Of which cost of financial instrument	0,21%

Figure 19 : Total Cost of Ownership for Retail Structured Products in the Fee-based model: the Netherlands.
Sources: see detailed sources and methodology in appendix 4.
Please note: due to rounding in the cells, the total may appear to be different than the sum of its parts.
(*) The maturity is the initial maturity at the issuance of the RSPs.

In the Netherlands, RSPs issued in 2020 show a Total Cost of Ownership at 2,06% with an average term of 6,06 years.

5.3 Comparison of the Commission-based model and the Fee-based model

Based on data collected, we compared the costs per type of financial instruments according to different level of investable amounts held by the investor: 10 000€, 100 000€ and 500 000€.

- **10 000€ of investible amount**. This represents the median portfolio size of the population within the 3 countries of the Study.

investible amount	10 000 €											
	Average 3 Commission-based countries				The United Kingdom				The Netherlands			
	Equity funds	Mixed funds	Bond funds	RSPs	Equity funds	Mixed funds	Bond funds	RSPs	Equity funds	Mixed funds	Bond funds	RSPs
1st year	2,60%	2,14%	1,48%	2,91%	client does not have access to the service							
Following years	1,90%	1,53%	1,07%	0,00%								
Total Cost of Ownership per year if held to maturity	n/a	n/a	n/a	0,47%	client does not have access to the service							
Total Cost of Ownership for a 5-year investment	2,04%	1,65%	1,15%	0,58%	client does not have access to the service							
of which cost of services	1,07%	0,90%	0,61%	0,36%								
of which cost of financial instrument	0,97%	0,75%	0,55%	0,22%								

Figure 20 : Comparison of the Commission-based model and the Fee-based model for an investible amount of 10 000€.

At this level of investible amounts, our results show that **in the Fee-based model retail investors with 10 000€ are unlikely to receive investment advice** from financial advisors while in the other European countries where the Commission-based model is applicable, they can get access to investment advice.

- **100 000€ of investible amount.** This represents the threshold at which a retail investor could get a personalized investment advice in the United Kingdom (see the United Kingdom section of the Fee-based model).

investible amount	100 000 €											
	Average 3 Commission-based countries				The United Kingdom				The Netherlands			
	Equity funds	Mixed funds	Bond funds	RSPs	Equity funds	Mixed funds	Bond funds	RSPs	Equity funds	Mixed funds	Bond funds	RSPs
1st year	2,60%	2,14%	1,48%	2,91%	5,74%	4,35%	4,55%	5,22%	client does not have access to the service			
Following years	1,90%	1,53%	1,07%	0,00%	1,70%	1,51%	1,65%	0,00%				
Total Cost of Ownership per year if held to maturity	n/a	n/a	n/a	0,47%	n/a	n/a	n/a	0,47%	client does not have access to the service			
Total Cost of Ownership for a 5-year investment	2,04%	1,65%	1,15%	0,58%	2,51%	2,08%	2,23%	1,04%	client does not have access to the service			
of which cost of services	1,07%	0,90%	0,61%	0,36%	1,28%	1,28%	1,28%	0,48%				
of which cost of financial instrument	0,97%	0,75%	0,55%	0,22%	1,23%	0,80%	0,95%	0,56%				

Figure 21 : Comparison of the Commission-based model and the Fee-based model for an investible amount of 100 000€.

Where the advice is comparable between the United Kingdom financial advisors and the advisors in the 3 Commission-based countries of the study (personalized advice), the Total Cost of Ownership in the Commission-based model is lower for all in-scope financial instruments by nearly -23% for equity funds (-47bps) and -26% for mixed funds (-43bps) and up to -93% for bond funds (-108bps) and -79% for RSPs (-46bps).

- **500 000€ of investible amount.** This represents the threshold at which a retail investor could get a personalized investment advice in the Netherlands (see the Netherlands section).

investible amount	500 000 €											
	Average 3 Commission-based countries				The United Kingdom				The Netherlands			
	Equity funds	Mixed funds	Bond funds	RSPs	Equity funds	Mixed funds	Bond funds	RSPs	Equity funds	Mixed funds	Bond funds	RSPs
1st year	2,60%	2,14%	1,48%	2,91%	5,74%	4,35%	4,55%	5,22%	2,96%	1,61%	1,93%	2,06%
Following years	1,90%	1,53%	1,07%	0,00%	1,70%	1,51%	1,65%	0,00%	1,67%	1,56%	1,48%	0,00%
Total Cost of Ownership per year if held to maturity	n/a	n/a	n/a	0,47%	n/a	n/a	n/a	0,47%	n/a	n/a	n/a	0,34%
Total Cost of Ownership for a 5-year investment	2,04%	1,65%	1,15%	0,58%	2,51%	2,08%	2,23%	1,04%	1,93%	1,58%	1,58%	0,41%
of which cost of services	1,07%	0,90%	0,61%	0,36%	1,28%	1,28%	1,28%	0,48%	1,00%	1,00%	1,00%	0,20%
of which cost of financial instrument	0,97%	0,75%	0,55%	0,22%	1,23%	0,80%	0,95%	0,56%	0,93%	0,58%	0,58%	0,21%

Figure 22 : Comparison of the Commission-based model and the Fee-based model for an investible amount of 500 000€.

The TCO comparison between the 3 Commission-based countries of the Study and the United Kingdom is the same than in the previous case.

It is interesting to compare the TCO in the Netherlands to the average of the 3 Commission-based countries: results differ depending on the point in time and on the type of financial instrument. For example, the cost of the first year is higher in the Netherlands for equity funds (+12%/+36bps) and bond (+23%/+45bps) funds, it is not the case for mixed funds (-33%/-53bps). The cost over a 5-year investment period is lower for equity funds (-6%/-11bps) and mixed funds (-5%/-7bps) in the Netherlands, which is not the case for bond funds (+27%/+42bps).

For RSPs, the 3 Commission-based countries show a lower TCO (0,47% p.a.) than in the United Kingdom (0,70% p.a.). In addition, the Netherlands TCO (0,34% p.a.) is almost half of the United Kingdom, while both countries have the same inducement ban regime, which could illustrate that inducements have no clear effect on the cost of RSPs.

Looking at the RSPs market in the 3 Commission-based countries, the entry costs (2,91% upfront) remain much lower than entry costs in the United Kingdom (5,22% upfront). **Again, this shows that irrespective of the average maturity of RSPs, there are no evidence of a causality effect between inducements ban and the cost of RSPs.**

One important thing to bear in mind is that for such levels of investible amounts, investors from the 3 Commission-based countries might not go through the retail banking network and benefit from more competitive costs applicable to the private banking distribution channel, which is not part of our Study.

The two models have different tax impacts for a retail investor

Although it is not the purpose of this Study to go into tax analysis, the tax treatment of each model should also be considered.

In some cases, where investment advice is paid separately by the way of fees from the investor to the advisor, these fees are subject to VAT which, in France, Italy and Spain, potentially amounts to a minimum of 20%, far from being insignificant. That represents an extra cost to be taken into account when considering mass retail clients.

Moreover, in some countries (e.g. France), the fee paid for independent investment advice is not deductible from the income of the financial instrument, whereas the commission paid for non-independent investment advice is deductible since the cost of advice is included in the total price of the financial instrument and the investor pays its income tax on the net return of the product(i.e. after deduction of all costs, including cost of service).

A ban of inducements in the Commission-based countries might, in some cases, generate an additional cost from a fiscal perspective to which particular attention should be paid.

5.4 The case of ETFs

Having calculated the Total Cost of Ownership for retail clients to invest in mutual funds and RSPs, we also decided to consider the ETFs for two reasons: (i) the volumes invested in these financial instruments have increased in the past years and (ii) the necessity to compare ETFs and mutual funds using the TCO approach as it is the only way to provide a common ground for a fairer comparison.

ETFs market in Europe

The number of ETFs traded has seen extraordinary growth in the last 15 years, increasing from less than 300 in 2002 to more than 7 000 in 2020[37].

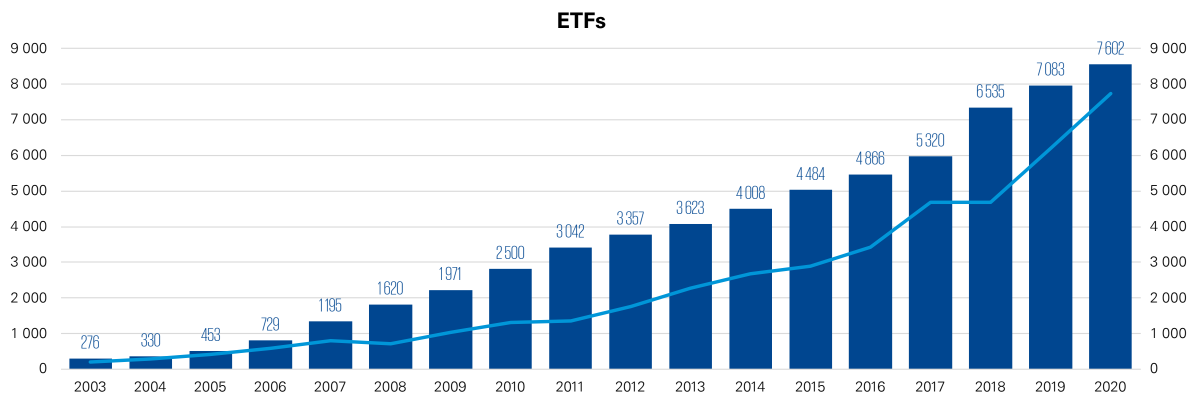


Figure 23 : ETFs market in Europe.
Sources: www.Statista.com

In its publication called "Principle for the regulation of ETF", IOSCO stated that, "the investment objectives and techniques of ETFs have also become more diverse and complex, leading to the creation of new generations of ETFs, including those that are leveraged through the use of futures contracts and other types of derivative instruments, or that reference the inverse of an index's performance[38]".

This broad universe enlarges the investment opportunities, but also makes it more difficult to take investment decisions, thus raising the question: "Should clients always get advice when investing in ETFs?" It probably makes sense as selecting the most relevant ETFs in order to meet one's investment needs. Besides, portfolio allocation "strategy" can be complex, thus advice on ETFs could be a safeguard for retail clients.

For this reason, we also used the TCO approach to evaluate if, as some may think, investing in ETFs costs less than investing in mutual funds.

[37] Source: www.Statista.com
[38] Iosco Principles for the Regulation of Exchange Traded Funds-Consultation report (p.5) https://www.iosco.org/library/pubdocs/pdf/IOSCOPD376.pdf

What is the Total Cost of Ownership for an ETF with investment advice?

The tables below present the average cost based on data collected from France, Italy and Spain of this Study for the Commission-based model and the United Kingdom and the Netherlands for the Fee-based model.

Advice should be considered for retail investors

In France, Italy and Spain, there is no investment advice included in the cost of the ETFs but, given the diversity of the offer (at the end of 2020, more than 1 820 ETFs traded in Europe indexed on more than 200 indices), retail clients might face confusion on which products are best suited to them. Thus, it could be appropriate for retail investors to benefit from investment advice in order to understand risks and define proper allocation to match their needs, objectives and financial capacities.

Therefore, we calculated the cost of ETFs associated investment advice to obtain the Total Cost of Ownership for ETFs. As a result, this exercise enables us to compare this TCO with that of mutual funds offered in the Commission-based countries.

These two methods allow, on a fair basis, to compare similar perimeters including both the cost of products and the cost of services.

Method 1: Comparison with mutual funds offered in the Commission-based model

In order to do so, for ETFs, we relied on the costs of ETFs in the UK and Netherlands associated with the cost of investment advice in these two countries. ETFs' data comes from the EC report[39] which does not distinguish between asset classes.

Then, we compare this data to the Total Cost Ownership of mutual funds in the Commission-based model (with a 50/50 mix of equity and bond mutual funds) which includes the cost of services.

ETFs costs include execution fees and the spread borne by a client when investing (or selling) ETFs.

[39] European Commission Final Report of Distribution systems of retail investment products across the European Union, April 2018

TCO calculation for ETFs compared to 50/50 mutual funds (equity + bond funds)	Cost of mutual funds with investment advice	Costs of ETFs with investment advice	
	FR, IT, SP mutual funds (equity + bond funds)	UK ETFs + UK advice	NL ETFs + NL advice
	%	%	%
A - Cost of advice in the Fee-based model initial	n/a	2,40%	0,00%
A' - Cost of advice in the Fee-based model ongoing	n/a	0,80%	1,00%
B - Execution fees on purchase (ETFs)	n/a	0,35%	0,20%
B' - Execution fees on sale (ETFs)	n/a	0,35%	0,20%
C - Spread bid/ask on purchase (ETFs)	n/a	0,14%	0,14%
C' - Spread bid/ask on sale (ETFs)	n/a	0,14%	0,14%
E - Entry fees (mutual funds)	0,55%	n/a	n/a
D - Ongoing costs	1,48%	0,23%	0,30%
Exit fees (mutual funds)	0,01%	n/a	n/a
Total Cost of Ownership [A+B+C+D+E] - 1st year	**2,04%**	**3,92%**	**1,64%**
Total Cost of Ownership [A'+D]- Next years	**1,48%**	**1,03%**	**1,30%**
Total Cost of Ownership per annum for a 5-year investment	**1,60%**	**1,70%**	**1,43%**
Of which cost of services	**0,84%**	**1,42%**	**1,08%**
Of which cost of financial instrument	**0,76%**	**0,28%**	**0,35%**

Figure 24 : Total Cost of Ownership for ETFs compared to 50/50 mutual funds (equity + bond funds).
Sources: see detailed sources and methodology in appendix 4.
Please note: due to rounding in the cells, the total may appear to be different than the sum of its parts.

The results calculated over a 5-year investment period on ETFs show a Total Cost of Ownership per annum representing:

- 1.60% for the average of mutual funds in France, Italy and Spain of which 0,76% in cost of financial instrument and 0,84% in cost of services;
- 1,70% for the United Kingdom, of which 0,28% in cost of financial instrument and 1,04% in cost of services;
- 1,43% for the Netherlands, which includes 0,35% in cost of financial instrument and 1,08% in cost of services.

We observe that ETFs are cheaper when taken alone, but their TCO are very comparable to that of mutual funds when including the cost of services provided to a retail investor, investment advice and personal assistance being an important piece of it, together with the costs of execution.

Method 2: Comparison with ETFs in the Commission-based model to which we have added a proxy on the estimate of the cost of advice by taking the average of what is applied in the United Kingdom and the Netherlands

In order to do so, for the Fee-based countries, we relied on the costs of ETFs in the United Kingdom and in the Netherlands associated with the cost of investment advice in these two countries. Then, we compare this data to the average cost of ETFs of the 3 Commission-based countries in-scope of this Study to which we added a proxy on the estimated cost of investment advice by taking the average of what is applied in the United Kingdom and the Netherlands in order to estimate a Total Cost Ownership. ETFs' data comes from the EC report[40].

ETFs costs include execution fees and the spread borne by a client when investing (or selling) ETFs.

TCO calculation for ETFs using a proxy to estimate the cost of investment advice in the Commission-based model	Average of FR, IT, SP ETFs + UK/NL proxy Advice	UK ETFs + UK advice	NL ETFs + NL advice
	%	%	%
A - Cost of advice in the Fee-based model Initial	1,20%	2,40%	0,00%
A' - Cost of advice in the Fee-based model ongoing	0,90%	0,80%	1,00%
B - Execution fees on purchase	0,83%	0,35%	0,20%
B' - Execution fees on sale	0,83%	0,35%	0,20%
C - Spread bid/ask on purchase	0,14%	0,14%	0,14%
C' - Spread bid/ask on sale	0,14%	0,14%	0,14%
D - Ongoing costs	0,43%	0,23%	0,30%
Total Cost of Ownership [A+B+C+D] - 1st year	**3,50%**	**3,92%**	**1,64%**
Total Cost of Ownership [A'+D]- Next years	**1,33%**	**1,03%**	**1,30%**
Total Cost of Ownership per annum for a 5-year investment	**1,95%**	**1,70%**	**1,43%**
Of which cost of services	**1,47%**	**1,42%**	**1,08%**
Of which cost of financial instrument	**0,48%**	**0,28%**	**0,35%**

Figure 25 : Total Cost of Ownership calculation for ETFs using a proxy to estimate the cost of investment advice in the Commission based model.
Sources: see detailed sources and methodology in appendix 4.
Please note: due to rounding in the cells, the total may appear to be different than the sum of its parts.

[40] European Commission Final Report of Distribution systems of retail investment products across the European Union, April 2018

The results calculated over a 5-year investment period on ETFs show a Total Cost of Ownership per annum representing:

- 1,95% for the average of ETFs in France, Italy and Spain, of which 0,48% in costs of financial instrument and 1,47% in cost of services;
- 1,70% for the United Kingdom, which includes 0,28% in costs of financial instrument and 1,42% of cost of services;
- 1,43% for the Netherlands, which includes 0,35% in costs of financial instrument and 1,08% of cost of services.

We observe that TCO of ETFs is higher in Commission-based model, mainly due to the cost of financial instruments

Figures in the tables for Method 1 and Method 2 above are relatively comparable. The difference between TCO of ETFs and TCO of mutual funds can be explained by taking into consideration the different management style of the products (active management vs passive management).

In addition, it's worth noting that the difference of cost between ETFs and mutual funds is significantly diverse to other studies results which analyze only the cost of financial instrument, without considering the cost of service.

6.

Quality enhancement

6.1 Quality enhancement definition

MiFID I established that remunerations can only be received by distributors from manufacturers if such remunerations are justified by an enhancement of the quality of the service provided to the client. MiFID II strengthened this requirement by specifying which conditions must be met in the provision of investment services (except independent investment advice and portfolio management) to comply with this requirement.

The main objective of the current regulation is to **offer the client an added-value service** related to the remuneration received by the manufacturer, such as, for example, the provision of periodic suitability-assessments of purchased financial instruments, among others.

Since MiFID II came into force, distributors across Europe have implemented high-standard tangible solutions, in some cases exceeding the prescribed regulatory conditions, in order to enhance the quality of the services offered to investors.

Therefore, if a total ban on inducements is introduced, **retail investors will lose access not only to investment advice**, due to a potential advice gap as already observed in both the United Kingdom and the Netherlands, **but also to those added-value services** that MiFID II has successfully extended within the European financial industry.

Note that in the Fee-based model in the Netherlands and the United Kingdom, these quality enhancement conditions do not apply for any investment service, as either the client directly pays an ad hoc fee to its distributor for the service(s) provided, or if the distributor receives a remuneration from the manufacturer, such remuneration must be transferred to the client.

We have conducted a survey to assess, across the 3 Commission-based countries of this Study (France, Italy and Spain) on the way distributors have enhanced the quality of the service and on the resulting benefits for retail investors. The data we obtained came from responses provided by a total of 84 distributors from France, Italy and Spain.

6.2 What are the benefits investors may lose in the event of the introduction of an inducements ban in the Commission-based countries?

Retail investors are traditionally more reluctant to explicitly pay for investment services. This is confirmed by a recent survey conducted by Investment Trends[41], where we noted that 56% of French investors would like to benefit from an investment advice but would not pay for it (against 18% for the United Kingdom and 33% for the Netherlands investors, the two other countries in-scope in the survey). This fact, together with the conditions required by MiFID II for the remuneration of distributors on a commission-basis, led **intermediaries to focus on upgrading their services scheme by allowing retail investors to access investment advice and benefit from a wide range added-value services.**

Data obtained in this Study shows the following conclusions about the benefits that investors may lose in the event of a ban of inducements in the Commission-based countries.

[41] Investment Trends, Europe Advice Accessibility Report, July 2021
https://investmenttrends.com/wp-content/uploads/2021/11/EuropeAdviceAccessibilityReport.pdf

Increased amount of investment advice service

Since MiFID I and its transposition in Italy and since the transposition of MiFID II in France and Spain, many retail investors who only received execution of services[42] have gained enhanced access to non-independent investment advice. Retail clients relying on execution services only, have been provided with access to third-party products, as well as additional tools which enable better investment decisions and investment monitoring. Besides, in most cases, added-value services have been implemented as a combination of different solutions, as explained below.

In Italy, data collected by local associations shows that, in 2020, banks provided investment advice to 98,7% of their clients in the form of non-independent advice.

In Spain, data shows an increase by 136% of the number of advised clients, which has gone from 1,1 million in 2017, to 2,6 million in 2020, of which 99,89% are non-independent advice clients and only the 0,11% are independent advice clients.

Investment advice is accessible to all retail clients irrespective of the amount of invested assets

The Study points out that the Commission-based model grants all clients, irrespective of their assets, access to investment advice at a reasonable cost due to the mutualization of costs supported by the model itself.

Therefore, most retail investors choose to benefit from non-independent advice, while only a very small segment of high-net-worth clients choose independent advice, due to the unwillingness of retail investors to pay separately for the investment advice.

A ban of inducements in the Commission-based countries generates a high risk that investment advice may become available to retail clients that meet the minimum threshold of investible assets (as shown in the case of the Netherlands and the United Kingdom) and thus pushing retail clients to other simpler solutions, such as robo-advisor tools or on-line execution only services. Even though the "financial education" of retail clients has been improved, as we will further discuss, the current level of financial literacy is not sufficient to allow retail clients to deal with investments through on-line tools.

[42] Execution services" meaning: (i) execution of orders on behalf of clients and/or (ii) reception and transmission of orders in relation to one or more financial instruments.

Access to a combination of added-value services

Banks and financial investment advisors have opted for **combining the quality enhancement alternatives established under MiFID II when implementing such added-value services,** going beyond the set of minimum requirements under which inducements are permitted.

For example, in France, they provide a global assessment of the financial situation of the client considering marital, tax or inheritance conditions, and then recommend a personal asset allocation, that is suited to investors' needs. Some of the respondents are also providing ongoing suitability assessments in addition to the annual suitability assessment, and specifically 67% of respondents offer tools to help the adviser and the client in the investment decision.

The Commission-based model also grants clients access to a wider range offer of financial instruments. In this sense, the model allows access to complex products, whereas execution-only is limited to non-complex products. The so-called complex products need to remain accessible to retail clients, notably for portfolio diversification and, as the case may be, for hedging or capital protection. For instance, structured products, employee-saving schemes funds in France or real estate funds are products of interest for retail investors. In addition, within the banking distribution channel of this Study, 50% of respondents in France provide discounted or free of charge additional services such as execution or custody services.

Based on feedbacks from respondents, in Italy the main value-added services are the following:

- provision of suitability assessment more frequently than required by law (almost 50% of the respondents, of which, 62,5% on a quarterly basis, and 37,5% on a six-month basis);
- provision of suitability assessment based on the consideration of the client's situation as a whole with a global approach (90% of respondents);
- inclusion of Insurance Based Investment Products ("IBIPs") in the suitability assessment (85% of respondents);
- implementation of an alerting system on liquidity and credit risk (50% respondents);
- provision of value-added information such as investment ideas or arbitrage, market data, information received from manufacturers or issuers (30% of respondents).

Moreover, under the Commission-based model in Italy, most of the investment services provided by banks and intermediaries are combined with investment advice and are also offered through the professional advice of individual tied agents. They assist all clients in their domiciles in the context of a fiduciary relationship, advising them on behalf and under the full responsibility of one firm and with the tool provided by that firm.

In the case of Spain, most of the respondents have also opted for combining the alternatives foreseen under Spanish regulation to comply with the quality enhancement criteria.

Data shows that 95% of the respondents provide an annual assessment of the suitability of the financial instruments which the client has invested in (on-going suitability), and 86% of the respondents also include an appropriate number of third-party instruments, as we will further explain. In addition, 81% of the respondents further provide another added-value service, such as access to online information tools about investor investment positions and distribution by asset class, or asset allocation tools according to client's risk profile and expert market criteria.

Finally, if a ban of inducements is decided and the drawbacks exceed the benefits, a potential return to this model is nearly impossible. Such factors must be taken into consideration before banning the Commission-based model, especially when there is no need for change or a reason to ban it, according to the position of authorities such as the AMF in France, or the CNMV in Spain.

Access to third-party products without altering product costs

The Study reveals that the implementation of MiFID II has resulted in an increased offer of third-party products to retail investors in France, Italy and Spain, particularly when it comes to providing investment advice and execution or RTO services, or even investment advice.

In France, more than 65% of the respondents offered third-party products in 2020.

In Italy the number of respondents offering third-party investment funds increases to 80%.

In Spain, data shows that more than 90% of the product offer corresponds to third-party products what implies an intense change in the pre-MiFID II landscape[43]. Besides the increase in offer, available data on mutual funds, the volume of third-party funds effectively distributed has increased from 16,7% in 2019 to 23,6% in 2021.

In addition, this Study also points out that management companies have not increased funds' commissions and fees. The increase in the offer of third-party products implied a big effort for banks in selecting and monitoring, according to the product governance requirements, manufacturers (management companies and issuers) without increasing the TCO. On the contrary, products costs show a decreasing trend in recent years. Financial instruments in the Commission-based model are not more expensive considering the advice and other services included in their price. The criticism focused in that direction, stating that Commission-based model products are too expensive, generally comes from a comparison with ETFs. Such comparison could be misleading as it does not consider the cost of the services attached to Commission-based model, such as investment advice.

Transparent access to both models: Fee-based and Commission-based

Under MiFID II requirements, intermediaries can adopt a Fee-based model, a Commission-based model or a combination of both. Investors are clearly informed by the distributor of its remuneration model, meaning that they can choose between a distributor remunerated on a fee-based basis and a distributor remunerated on a Commission-based model basis.

The transparency objectives in terms of disclosure of costs and inducements within the provision of execution, RTO and non-independent investment advice, clearly established by MiFID II for the benefit of the client, have been fully achieved three years after MiFID II has come into force.

Increase of retail investors' "financial education"

This increase of retail investors' financial education is directly related to the expansion of investment advice services and other added-value tools among retail clients. The access of financial education to many people depends – inter alia - on the advisor, who must be duly accredited after having fulfilled specific knowledge and competence requirements, or on the access to the added value tools we have mentioned all throughout this report. During the investment process (either with investment advice or execution services with added value tools), retail clients acquire financial knowledge while completing the suitability/appropriateness tests or using the relevant services, and also over the time with the periodic information reports and the monitoring of their positions.

All respondents in France, Italy and Spain provide such tools and,

[43] This improvement is supported by the second mystery shopping exercise carried out by the CNMV in more than 800 bank branches (29 March 2021).

additionally, educational materials to retail clients such as investment and arbitrage ideas, market data, information on financial instruments, information received from manufacturers or issuers and also value-added educational materials or services aimed at increasing the client's financial literacy (for example, up to 50% of respondents provide access to training material directly to their clients).

Moreover, granting a permanent access to human staff to assist the clients in understanding the financial instruments on all aspects, including costs, risks, and answering personal and specific questions, is considered a relevant tool to strengthen investors' "financial education".

In a complex environment with clients willing to invest in financial markets, where new information regarding ESG investments is being provided to clients, it is essential to raise clients' awareness and knowledge enabling them to access a larger range of financial instruments.

Extended territorial coverage by advisors

Accompanying the financial development of the different EU Member States, distributors have set out their branches throughout the countries, expanding their network to small and medium-sized cities and even to rural areas. Within this model, retail clients in remote areas are offered easy access to face-to-face advice, building in most cases long-term relationships with their financial advisors, who have an excellent knowledge of their clients' profile and investment objectives.

Moreover, in Italy many distributors operate by means of dedicated and specifically authorized persons (tied agents)[44] who provide investment advice at the client's domicile.

In general terms, **with the implementation of MiFID II, distributors decided to maintain their office network capillarity.** Despite investing only in digitalization, maintenance of the on-site channel for the provision of investment services to retail investors has been understood as an added-value service by investment firms.

This territorial coverage remains crucial to ensure that a large number of retail investors can continue to benefit from investment advice (among other investment services) and also from the high standards of knowledge and competence that natural persons providing investment advice or information on financial instruments are required to comply with.

[44] The Assoreti (Association of intermediaries which provide investment advice services through their qualified natural financial advisors) refers to 23,950 financial advisers acting on behalf of banks and investment firms, who follow 4 784 000 clients with assets equal to 744 853 million euros (latest data available for 2021).

7.

Conflict of interest management

As already explained, MiFID II strengthened the requirements regarding the perception of inducements. In addition to those related to disclosures and quality enhancement, it also required distributors to ensure that, when they receive or pay inducements, they fulfill their obligations under Article 23 (conflicts of interest) and do not impair compliance with their duty to act honestly, fairly and professionally in accordance with the best interests of their clients. The industry has made enormous efforts to comply with these additional conflicts of interest management rules.

7.1 A robust framework that grants investor protection

Apart from the quality enhancement requirements, MiFID II[45] strengthened the conditions to be fulfilled by distributors in order to legitimately receive inducements requiring that:

- The remuneration received by the distributor must be translated into a tangible benefit for the investor;
- The remuneration is justified by an ongoing benefit for the client in relation to the continuous reception of the inducement;
- The services provided to the investor are not biased by the remuneration received by the distributor from the manufacturer;
- Distributors must provide accurate information to investors on the payment concerned prior to the provision of the relevant investment service or, if unable to ascertain the amount of any benefit to be received, the method of calculating that amount and the exact amount of the payment later received.

In addition, distributors must inform investors on an individual basis at least once a year (if inducements are received in relation to the investment services provided) about the actual amount of payments received.

These requirements are introduced by **MiFID II aiming at setting forth a robust framework for distributors to prevent and manage potential conflicts of interest** in relation to receiving inducements.

According to the answers provided, distributors in France, Italy and Spain have widely implemented different measures to comply with the abovementioned requirements, such as for example:

- Disclosing ex-ante and periodically ex-post costs and charges to clients including the inducements received or paid, which have to be separately indicated;
- Disclosing to clients if the investment advice is made on an independent or non-independent basis;
- Implementing clear policies and controls on inducements received from manufacturers, including gifts and invitations;
- Evaluating manufacturers' products and their respective target markets according to product governance requirements and in the context of formally incorporated product governance committees;
- Adopting remuneration policies that do not hamper the intermediary's duty to act in the client's best interest.

Moreover, in order to manage conflicts of interest, distributors have also put in place the following measures in accordance with MiFID II provisions:

- Salesforce remuneration is no longer directly linked to the number or volume of financial instruments distributed to clients; as they now also depends on qualitative factor relating to the quality of sales; and
- When recommending a financial instrument, the assessment must consider alternative products with respect to their complexity and costs.

In Italy, data shows that all the respondents have not only implemented a specific policy for the supervision of the remuneration received from manufacturers, but also additional measures for preventing and managing conflicts of interest, such as:

- Due diligence on the quality of the manufacturer or issuer at the start of the relationship (90% of respondents);
- Controls on the level of retrocessions received from manufacturers or issuers (80% of respondents);
- Sales force fees policy covering the risk to incentivize the distribution of the most remunerated financial instruments by manufacturers (75% of respondents);
- An internal margin policy to limit the risk of excessive margin coming from the distribution of intermediaries with a spread (i.e. structured products) (55% of respondents).

Intermediaries have adapted their sales processes and remuneration policies but also strengthened their internal governance to better identify and manage potential conflict of interests and improve transparency to their clients in terms of costs.

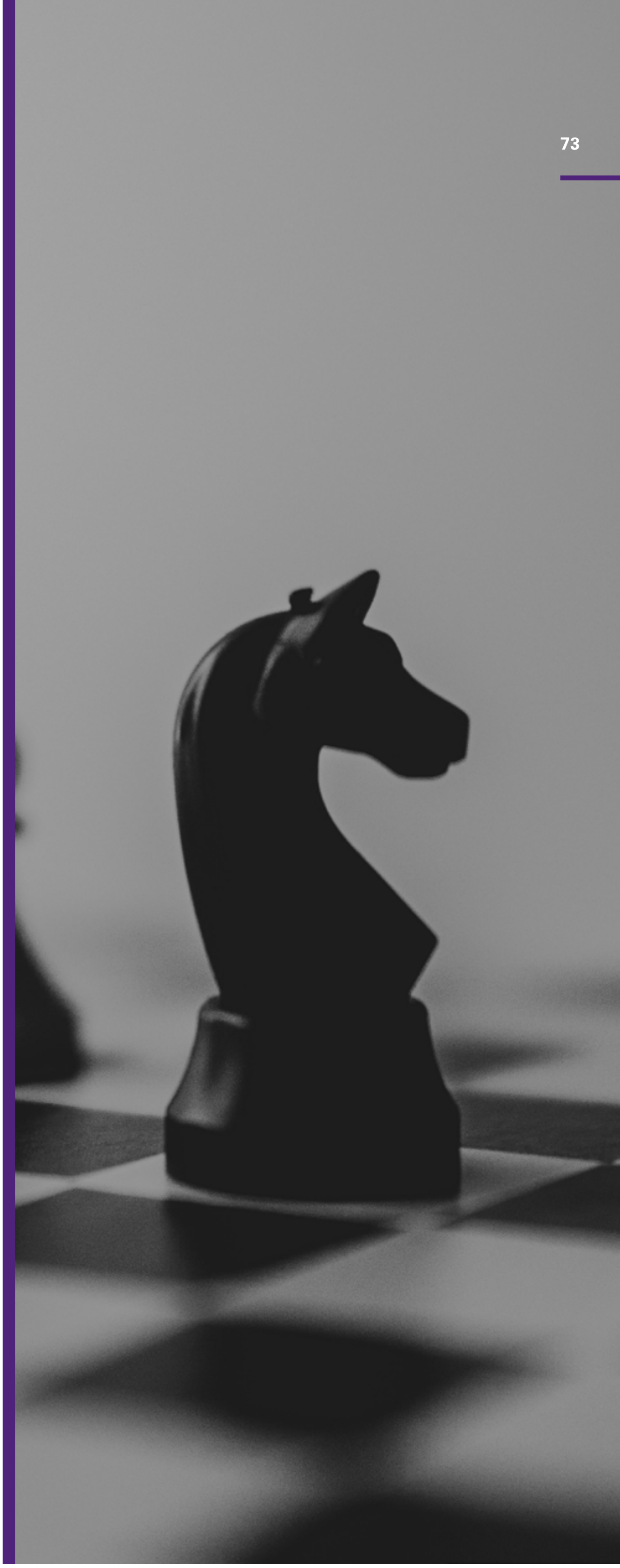
[45] Article 11 of MiFID II Delegated Directive (EU) 593/2017.

7.2 Need to take into consideration potential side effects of an inducements ban

Regarding inducements and conflicts of interest, it is important to stress the need to take into consideration potential side-effects for other services and client protection.

For example, potential implications should be assessed where an investment firm acting as placing agent also provides investment services to retail investors buying the financial instrument it is placing. In this context, it should be agreed that the fees received by the investment firm directly from the issuer/manufacturer of the financial instrument are payments received by the intermediary from a client in return for the provision of a service.

With respect to these specific payments, conflicts of interest rules will apply, including the need to identify and manage potential conflicts between the interests of different groups of issuers or manufacturers or the interest resulting from the activities that the firm carries out. Moreover, MiFID II has extended these rules with respect to identification, management, and disclosure of conflicts of interest, aiming at establishing a common European regulatory framework which reinforces the rules of conduct applicable for the provision of underwriting and placement services. Specifically, article 38 of the Delegated Regulation (UE) 2017/565 states that investment firms providing execution and research services as well as providing underwriting and placement services must ensure that adequate controls are in place in order to manage any potential conflicts of interest between these activities and between their different clients receiving those services.



MiFID II spirit, when approved 7 years ago, was not to limit or fight against the **development of the Capital Markets Union ("CMU") by diminishing** the provision of underwriting and placement services or to limit the intermediaries' capability to provide those services and all other investment services.

Instead, the intent was to reinforce the transparency and conflicts of interest management requirements and to also protect the issuer/manufacturer and investor client's interest. Accordingly, conflict of interest rules must apply when the intermediary offers to its client the financial instruments that it distributes on behalf of the issuers and of the manufacturers. This conflict of interests, stemming from the simultaneous provision of several investment services, exists in any service the intermediary provides to its client, whether it is an execution service and/or an investment advice service (on an independent basis or a non-independent basis).

If fees paid by issuers/manufacturers to intermediaries in connection with the issuances of financial instruments are treated as inducements when the placing agent also provides investment services to its retail or professional clients on the same financial instruments, then in case inducements would be prohibited, the placing agent, remunerated by the issuer/manufacturer for the underwriting and/or placing service(s) offered, would no longer be allowed to sell the financial instruments to clients other than eligible counterparties.

This would result in either i) retail and professional clients not having access to the financial instruments, which would reduce the type of products they can access to and therefore would not be in their interest, or ii) retail and professional clients having to buy the financial instruments to other eligible counterparties than the placing agent. As this seller will have to be remunerated separately (i.e. in addition to the placing fee received by the placing agent) for the investment advice and/or execution service provided, this would increase the total cost for the clients.

To conclude, it is clear that these unforeseen results of an inducement ban would not be in the best interest of retail and professional investors.

8.

Findings and conclusions

Above 100 000€, both models present a similar level of costs for retail investors. The TCO borne by investors does not depend on whether the intermediary is remunerated via commissions or fees.

When comparing the Commission-based and the Fee-based models using the Total Cost of Ownership ("TCO"), the data presented in previous sections confirmed that **both models offer similar ranges of TCO for retail investors.** Moreover, for low investment amounts, the Commission-based model can provide for a service where the Fee-based model does not. In addition, different tax rules (e.g. VAT) apply according to the models, which could lead to higher costs in the Fee-based model.

The average TCO in France, Italy and Spain is below the costs in the United Kingdom for all type of products and actually very close to the costs applied in the Netherlands, **despite the large difference in investment thresholds, which, in the Netherlands and the UK, consequently drive most retail investors out of the investment advice market.**

	Investment amount	Countries	Equity funds	Mixed Funds	Bond Funds	Retail structured products
Average annual TCO for a 5-year investment for retail investors (data as of 2020)	**10 000 €**	FR, IT & ES	2,04%	1,65%	1,15%	0,58%
		NL	client does not have access to the service			
		UK	client does not have access to the service			
	100 000 €	FR, IT & ES	2,04%	1,65%	1,15%	0,58%
		NL	client does not have access to the service			
		UK	2,51%	2,08%	2,23%	1,04%
	500 000 €	FR, IT & ES	2,04%	1,65%	1,15%	0,58%
		NL	1,93%	1,58%	1,58%	0,41%
		UK	2,51%	2,08%	2,23%	1,04%

Figure 26 : Average annual TCO for a 5-year investment for retail investors (data as of 2020).

Where inducements have been banned, no investment advice is provided to retail investors with assets under 100 000€: a gap in access to investment advice and other services has emerged.

The inducements ban has shrunk access to investment advice for the mass retail clients in the United Kingdom and the Netherlands.

As mentioned previously in the report, in the United Kingdom, a client with an investible amount of up to 100 000£ receives limited or no investment advice[46]. The observation is the same for the Netherlands, where the mass retail clients have limited or no access to investment advice due to an offer

[46] These figures have been confirmed by the Investment Trends Study in 2021 where one can read than the proportion of investors with less than 100 000£ has drop from 57%in 2013 to less than 30% in 2021. Source: Investment Trends, Europe Advice Accessibility Report, July 2021

proposed by large Dutch banks starting from 500 000€.

In these countries, since the introduction of the inducements ban, there has been an important decline in the offering of investment advice to mass retail clients, and several studies and reports highlight this result. In addition, the inducements ban has led to automatized advice, known as "robo advice".

Unlike the Fee-based model, the Commission-based model allows all clients, including the smallest ones, to access investment advice at a reasonable cost. Moreover, in this case, clients bear the implicit cost of investment advice only if the advice leads to an actual transaction, which is in line with the preferences expressed by many retail clients questioned by Investment Trends in 2021[47].

Therefore, a ban of inducements would lead not only to depriving intermediaries, and consequently investors, from having the choice between the two models but will also exclude a large part of European investors from getting investment advice since half of the Eurozone population has less than 10 300€ in financial assets. Besides, for investors eligible to investment advice, there is no evidence that it would cost them less than in the current model.

An inducement ban entails a risk that retail investors will not be able to get access to valuable services and tools that intermediaries have put in place to improve investment services quality.

A ban of inducements would lead not only to depriving the intermediaries, and consequently the investor, from having the choice between the two cost models as they exist today, but would **also exclude a large part of European investors from getting investment advice and/or additional protections provided by the added value services received from** distributors pursuant to the quality enhancement requirements.

Annual suitability assessments, suggested optimal asset allocation for the client based on its profile, global assessment for the client's personal situation, guided access to more sophisticated financial instruments, additional tools to take investment decisions, including on-line information tools, and comparative tools, multichannel solutions and even programs and interactive contents to develop financial literacy are some of the improvements that investors benefit from.

Within the MiFID II regulatory framework, the Commission-based model leads to quality enhancement. Therefore, shifting to the Fee-based model through a ban on inducements could mean that retail investors - or at least those with limited savings - would no longer receive the enhanced or additional services with which they are currently provided.

In addition, the new European regulatory framework that increases transparency to retail investors on ESG investments, intends to facilitate the sustainability and medium and long term-based investment decisions, for which the provision of investment advice to retail clients is a key tool. Decisions such as a total ban of inducements that could diminish the provision of investment advice and, endanger the ultimate goal of boosting transparency and well-informed decision making by retail clients.

[47] Source: Investment Trends, Europe Advice Accessibility Report, July 2021.
https://investmenttrends.com/wp-content/uploads/2021/11/EuropeAdviceAccessibilityReport.pdf

The Commission-based model does not prevent access to third-party products.

Intermediaries tend to offer a wide and varied catalogue of financial instruments to be made available to clients, including third party products.

The proportion of intermediaries that systematically offer a product range that includes third-party products amounts in the sample analyzed to between 65% and 90%, which in practice translates into a consolidated and growing trend.

In the Commission-based countries, the **additional effort stemming from the inclusion of third-party products in the catalogue has not represented an increase in the TCO.**

Intermediaries have also implemented a robust system for prevention and management of potential conflicts of interest, which even go beyond the regulation itself, and guarantees investor protection.

Sales processes have been optimized to ensure compliance with the investment firm's duty to act honestly, fairly and professionally in accordance with the best interests of the clients. To reach this goal, firms properly identify and manage potential conflicts of interest, ensure transparency through the disclosure of costs and commissions to the client, set clear remuneration policies, and strengthen their internal governance framework.

European regulations should not restrict the freedom of retail investors to choose according to their preferences. A ban on inducements would shift the provision of investment services towards a Fee-based model for countries with a very different retail investor profile and whose practical effects threaten the improvements achieved so far in terms of service quality, inclusion, and accessibility.

Applying a "one-size fits all" approach will generate serious gaps in access to investment advice and added value services in most of the countries, while various studies show that **investors benefit from these services but are reluctant to pay explicit fees for them (or eventually on the condition that the service leads to an actual transaction)**[48].

Particular attention should also be paid to **differences in the level and structure of financial assets held by retail investors across Europe** before considering applying a single model all over the European Union. Not only the lower level of financial assets, but also the higher weight that cash represents, should be considered.

[48] Source: Investment Trends, Europe Advice Accessibility Report, July 2021
https://investmenttrends.com/wp-content/uploads/2021/11/EuropeAdviceAccessibilityReport.pdf

Enormous capital inflows are needed to finance the transition to a green and digital economy. The Capital Markets Union calls upon retail investors to participate in and benefit from this transition. A unique and common approach could prevent citizens from accessing financial instruments and thus would move away from this objective.

The Commission-based model can help achieve this objective because it:

- **Provides access to financial instruments at a reasonable cost,** regardless of the level of assets held by retail clients;
- **Provides enhanced or additional services** to help clients move from saver to investor and protects against inflation;
- **Supports retail investors in their investment decisions while promoting financial literacy.**

All potential side-effects of a ban on inducements must be addressed

It is important to stress that an advice gap and downgrade of the services received are not the only potential effects of a total ban on inducements.

Indeed if fees paid by issuers/manufacturers to intermediaries in connection with the issuances of financial instruments are treated as inducements when the placing agent also provides investment services to its retail or professional clients on the same financial instruments, then in case inducements would be prohibited, the placing agent, remunerated by the issuer/manufacturer for the underwriting and/or placing service(s) offered, would no longer be allowed to sell the financial instruments to clients other than eligible counterparties.

As a result, retail clients would either not have access to these financial instruments or have to purchase them through another eligible counterparty, which would increase their costs.

This shows that all potential side-effects must be taken into consideration prior to proposing any amendment related to inducements.

9.

Appendix

Appendix 1. Fostering the evolution from savers to investors: What if I had invested my cash?

One of the key objectives of the Capital Markets Union (CMU) agenda is to increase the level of retail participation in capital markets[49]. Achieving this goal is expected to provide EU companies, and the EU economy in general, with much needed long-term capital and to speed up the green and digital transition.

Nevertheless, most European households do not save directly in capital market instruments, which is necessary to institutionally foster the step from "saver" to "investor", particularly when negative interest rates and inflationary perspectives erode the future purchasing power of their savings pots, and therefore affect consumer spending and tax revenues in the upcoming decades.

Although a wide array of reasons explains this risk (including risk aversion or low levels of financial literacy), one relevant reason stands out: the **unawareness of the potential returns generated by investment in investment mutual funds**. Likewise, the **emphasis put by prominent stakeholders and authorities on the negative impact of costs on the return that retail investors can expect to receive from investment products, while not emphasizing the benefits, also tends to undermine consumer trust in these products**, discouraging retailers from starting down the path to profitability.

To illustrate this effect, we refer to EFAMA's report on "Perspective on the net performance of UCITS" (July 2021)[50], showing how a suitable investment strategy can optimize people's long-term saving prospects, such as their standard of living in retirement, while contributing to EC goals to the green and digital transition, with the participation (and for the economic benefit) of a retail investor with long term perspective.

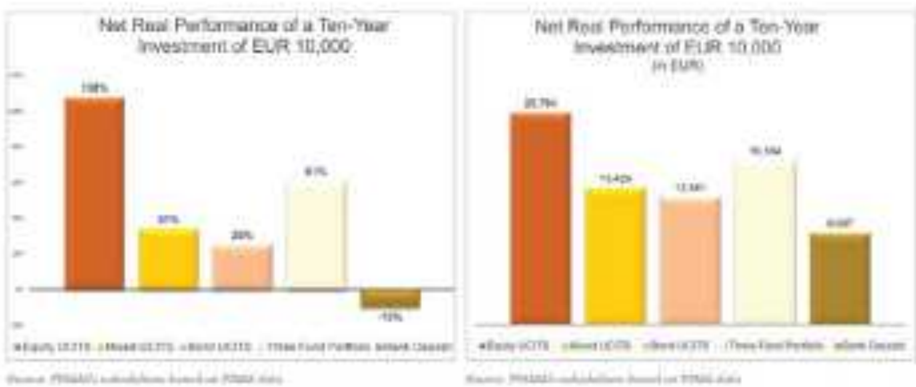


Figure 27 : Net Real Performance of a Ten-Year Investment of EUR 10,000.

[49] "Increased retail investor participation will make it possible to channel long-term savings to companies, improving their access to financing, speeding up economic recovery and the green and digital transition" - 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.
https://www.efama.org/newsroom/news/market-insights-issue-5-perspective-net-performance-ucits

Appendix 2. Robo-advisors adoption, a mixed picture

A good option, but insufficient as a stand-alone basis for all kind of investors.

In a recent paper published by ESMA[51], a dedicated section on robo-advisor identified some opportunities, such as costs reduction for both investors and intermediaries, client's experience improvement and the access to more financial instruments by a wider range of investors.

However, most robo-advisors are built for self-directed individuals. Investors with a low or medium level of financial literacy, or with delicate or complex financial situations (for example those with specific liquidity needs considering their personal and family circumstances or with tax or inheritance planning needs) are better suited towards a human advisor.

Besides, considering that robo-advisors' product offer is mostly based on ETFs, the need for suitable advice comes to the table.

Degree of human intervention: client technical support or extra-charge for human advice.

The fact that most robo-advisors focus on providing automated investment advice does not mean that there are no real people behind the service, but the human interaction with the client is focused on customer care, and not in the provision of the investment advice as a financial service itself. Consequently, such client support staff is not subject to the strict requirements of knowledge and competence required by MiFID II for financial advisors. Indeed, they must take the necessary steps to ensure that they possess an appropriate level of knowledge and competence in relation to the offered financial instruments and devote sufficient time and resources to achieve that knowledge and competence, which is subject to stringent EU and national requirements in terms of qualifications, training, procedures including at least an annual internal or external review of staff members' development and experience, controls, and internal records with respect to the knowledge and competence of staff providing relevant services to clients, as well as responsibility.

As stated in a recent report requested by the European Parliament[52], there is sometimes also the possibility to obtain automated investment advice in addition to customer care. However, this would not be robo-advice but regular investment advice.

Recent Investment Trends survey[53] shows that automation, when combined with human assistance, is largely preferred by investors over the sole use of a Robo-advisor. Indeed, **only 4% to 11% of individual investors would only use digital advice without a financial advisor**.

In practice, in the vast majority of existing EU robo-advisors, human assisted advice is rarely available, and when it exists, it is charged extra, with rates starting at 150 € per hour[54].

In the United States, certain robo-advisors offer hybrid models, in which human advice is provided digitally through an online video chat with a human financial advisor. These models are more sophisticated and labor intensive and their fees are logically higher.

This topic has captured the European Commission's attention which has dedicated a section in its Consultation on retail investor strategy, which it will work on in the coming months.

[51] Call for evidence on retail client protection, ESMA, October 2021, P.14

[52] Souce: Robo-advisors-How do they fit in the existing EU regulatory framework, in particular with regard to investor protection? requested by the European Parliament's committee on Economic and Monetary Affairs (ECON) and dated on June 2021.

[53] Source: Investment Trends, Europe Advice Accessibility Report, July 2021. https://investmenttrends.com/wp-content/uploads/2021/11/EuropeAdviceAccessibilityReport.pdf

[54] Source: Robo-advisors-How do they fit in the existing EU regulatory framework, in particular with regard to investor protection? requested by the European Parliament's committee on Economic and Monetary Affairs (ECON) and dated on June 2021.

Size of the market and owners of the robo-advisors.

Today's leading robo-advisor market is the US with assets under management ("AuM") of about USD 680 billion in 2020. The main reason is that the world's largest investment firms are all based in the US, and they all started to provide robo-advisory services in the last decade and thus earlier than many of their European counterparts. The European market size is of a relatively modest size with AuM of USD 108 billion. The biggest national markets are the United Kingdom (USD 18 billion), Italy (USD 15 billion), France (USD 13 billion) and Germany (USD 9 billion)[55].

Focus: SEC and robo-advisors

During the annual SEC Speaks conference (12 October 2021), Gary Gensler, Chairman of the SEC, focused his opening remarks on the growing use of predictive data analytics and artificial intelligence in the financial sector[56]. He expressed concern when noting that modern digital financial platforms, including trading platforms and robo-advisers, use automated algorithms to market and recommend different financial products to investors. Chairman Gensler believes that the use of these technologies for investment advice creates a potential conflict of interest, especially for brokerage platforms, as the underlying algorithms would not be able to tell whether the advice is aimed at optimizing the performance of the client's portfolio or the platform's revenues. Furthermore, the development of these tools could pose a systemic challenge to financial stability by inducing more uniform and interconnected behavior of market participants.

In the same conference, the SEC's Enforcement Division stated that[57]: "Despite previously bringing enforcement actions in [the robo-advisers] area, the Division continues to see issues with robo-advisory firms. These issues include misleading statements regarding historical performance and conflict disclosures relating to robo-advisory firms' incentive to recommend proprietary investments."

[55] Source: Robo-advisors-How do they fit in the existing EU regulatory framework, in particular with regard to investor protection? requested by the European Parliament's committee on Economic and Monetary Affairs (ECON) and dated on June 2021

[56] Source: Annual SEC Speaks conference, 12 October 2021, Gary Ensler speech: https://www.sec.gov/news/speech/gensler-sec-speaks-2021-10-12

[57] Source: Annual SEC Speaks conference, 12 October 2021, in The National Law Review: https://www.natlawreview.com/article/highlights-sec-speaks-2021-chaircommissioner-remarks-and-litigation-and-enforcement#:~:text=Friday%2C%20October%2015%2C%202021%20The%20U.S.%20Securities%20and,via%20Webex%20on%20October%2012%20and%2013%2C%202021

Appendix 3. Evolution of the retail structured products market in France and in the United Kingdom between 2012 and 2020

We studied the volumes and diversity of retail structured products bought by investors in the French and the United Kingdom markets between 2012 and 2020.

• We observe a decreasing demand from investors in the United Kingdom by 86% between 2012 and 2020. In the same period, the demand from French investors has been growing by 67%. While the French and the United Kingdom markets were of similar size until 2012, the divergence in regulatory regime caused by the UK RDR has led to decreasing the level of services and narrowing the diversity of products available, which could explain the drop in demand in the United Kingdom.

• The range of asset classes and capital protection features available in these two markets could be another possible driver behind investors' demand. In the French market, more asset classes and more diverse capital protection levels are available than in the United Kingdom.

Notional Sold in Bn EUR (respectively GBP) by country

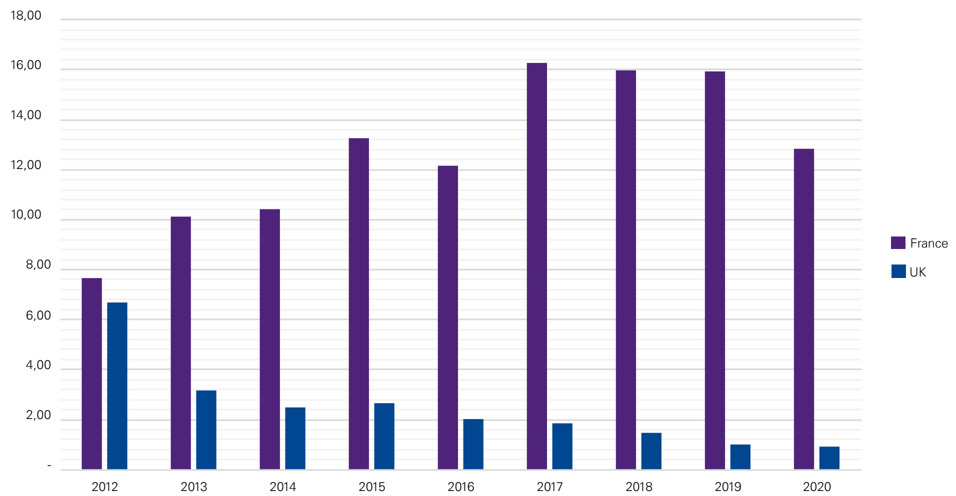


Figure 28 : Notional Sold in Bn EUR (respectively GBP) by country.
Source: StructuredRetailProducts.com

[58] France, Italy, Spain, the Netherlands, and the United Kingdom.
[59] On 31 December 2012, the Financial Services Authority (FSA, predecessor of the Financial Conduct Authority [FCA]) launched the Retail Distribution Review ("RDR") as a set of rules and regulations designed to fundamentally change the way in which financial advice operated in the UK (including an inducements ban).

Diversity of the retail structured products offering between countries

The United Kingdom

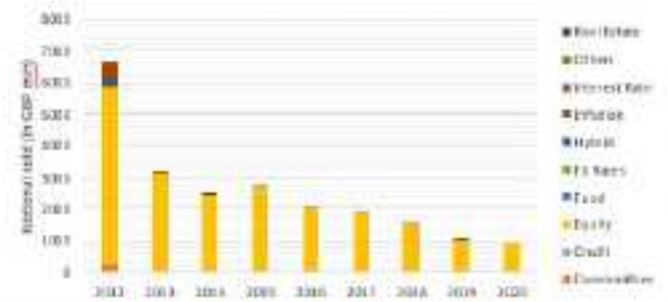


Figure 29 : Notional sold by Assets class.
Source: StructuredRetailProducts.com

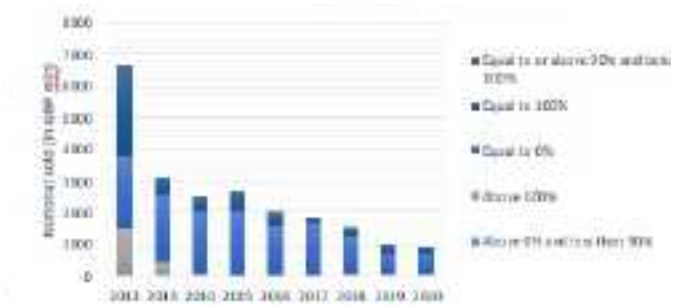


Figure 30 : Notional sold by capital protection level.
Source: StructuredRetailProducts.com

France

Figure 31 : Notional sold by Assets class.
Source: StructuredRetailProducts.com

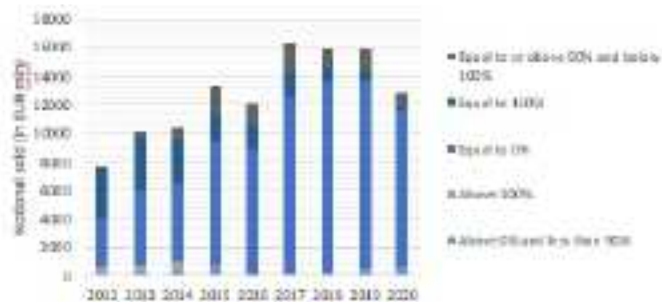


Figure 32 : Notional sold by capital protection level.
Source: StructuredRetailProducts.com

The range of asset classes available is wider in France (9 asset classes) than in the United Kingdom, where most asset classes except equity are hardly available since 2013. Indeed, equity-linked products represented on average 99,90% of sales volumes in the United Kingdom over the last 3 years, with most retail structured products referencing the FTSE100 index.

In the United Kingdom, the narrowing of the diversity of asset classes and the growth of the "zero capital protection" category, which now accounts for more than 4% of RSPs in the UK, could be explained as undesirable effects of the inducement ban. In France, only 0,80% of RSPs have zero capital protection, and more than 80% of products have a downside barrier protection, limiting the risks versus a conventional equity index investment.

	UK	France
Volumes sold: percentage change between 2012 and 2020	-86%	+67%
Asset classes (average of 2018-2020 data)	Since 2013 most asset classes are hardly available. Equity-linked represents 99,9% of volumes	9 asset classes
Capital protection levels (average of 2018-2020 data)	27% with 90% or 100% capital protection 69% with a downside barrier protection 4,1% with zero capital protection	13% with 90% or 100% capital protection 83% with a downside barrier protection 0,8% with zero capital protection

Figure 33 : Summary of retail structured products market in France and in the United Kingdom.
Source: StructuredRetailProducts.com

Appendix 4. Data collection methodology

Data sources and data collection for mutual funds in the Commission-based model

Data collected

The associations from each country participating in this Study, this is France, Italy and Spain, have collected data on products costs and investment services information, with the particularities explained below.

• From a product point of view, cost data relevant to assessing the Total Cost of Ownership of the products under scope, and the related retrocession rates paid to distributors. The data collected includes entry costs, exit costs, ongoing costs and the related retrocession rates for the products considered in the Study. Specific details in relation to these data are further explained below.

Therefore, data gathered are the one needed to assess the Total Cost of Ownership paid by investors and the commissions' rates paid to distributors.

• From a services point of view, information regarding the services provided to investors for the distribution of the products under scope of this Study has been collected.

As already mentioned, these data come from questionnaires sent to the financial entities of the countries participating in this Study and from other available public sources. Distributors have been requested to provide:

- Data on distribution of mutual funds through the services of execution of orders on behalf of clients, RTO, non-independent advice and independent advice, as well as the service threshold (average threshold amount from which each service is provided to the client) and the percentage of third-party products distributed.

- Data on quality-enhacement measures implemented by distributors non-for execution of orders on behalf of clients, RTO, non-independent advice and independent advice, as well as on conflicts of interest management.

Products under scope

The most representative funds, according to ESMA's Annual Statistical Report on the Performance and Costs of EU Retail Investment Products of April 2021, are considered in this Study:

Mutual funds considered are the following three types: Equity funds, Bonds funds and Mixed funds, all distributed to individual retail clients in each country (as defined by MiFID II, irrespective of the market segment in which the entity allocates each retail individual client) and considering both foreign and national mutual funds authorized for distribution in each country, whenever they involve a commission for the distributor.

Without prejudice to the above, specific considerations applicable in each country have been taken into consideration:

- In Italy, there exists another category of mutual fund with dominant presence in the investment portfolio of Italian households: flexible funds. Despite their relevance in the Italian market, flexible funds are excluded from the analysis since they are a local feature and do not concern the other participating countries.

- In Spain, guaranteed or secured funds have been considered under the scope to calculate the TCO of the 3 types of mutual funds analyzed, given their representativeness within the Spanish market (mainly for retail investors, which are the focus of this Study). However, guaranteed funds are not treated under a separate category in order to guarantee data comparison.

Data period

All data collected in the Study covers a period between 2019 and 2020.

Data collection for products distribution in France, Italy and Spain is referred to the year 2020.

Product data sources

Depending on the specific country, sources used by financial entities to provide product data may vary. Specific aspects applicable in each country have been taken into consideration:

France

For each component of the Total Cost of Ownership calculation the data collection relies on the most relevant and realistic data source reflecting the market conditions. The data collected come from 2 distribution channels: banks and financial investment advisors (CGP/CIF). The banks data was collected from members of the French Banking Federation (FBF). Financial Investment Advisors ("FIAs") data came from the financial advisors platform, Alpheys.

Data collected for each component are presented by distribution channel in the following sections:

- **Data collection for banks distribution channel**

  For data collection related to the bank distribution channel, the FBF collected data from 6 major banking groups representing 10 retail banking networks on the French market with respect to ordinary securities accounts ("CTO") and share savings plans ("PEA"). These 6 major banking groups represent more than 94% of total net banking income of the French market. Life-insurance wrappers have been excluded.

  The associations only considered pricing conditions that are applicable to retail banking clients. They collected pricing data through real data approach using the rate cards that are set up by the banks' systems. These pricing conditions are determined at the distribution agreement level (bank and asset manager) and not client by client.

  The associations used an arithmetic average with respect to the calculation of entry costs, exit costs and ongoing costs.

- **Data collection for FIAs distribution channel**

  Data on entry costs, exit costs, ongoing costs and the related commissions to distributors are provided by Alpheys, a platform for financial investment advisors representing more than 22% of signed agreements on the French financial investment advisor market.

  On entry costs, the commissions to distributors represent 100% of entry costs. Financial Advisors do not charge exit costs to the client.

  Data collected are based on data provided by members of the platform on the three types of funds considered: equity, bond and mixed funds. The platform used a weighted average on the number of subscriptions.

Italy

Data collection was targeted to the banking distribution channel, focusing on 20 banks including those operating with financial advisors/tied agents, which represent the majority of the distribution to the retail clients in Italy.

Data necessary to assess the Total Cost of Ownership paid by the investors and the commissions' rates paid to distributors.

Entry and exit costs (expressed as % of the amount invested/disinvested) were collected as costs actually paid by investors, i.e., discounts/waivers applied to specific clients were taken into account.

Ongoing costs have been collected as indicated in the KIID / EMT file (field 07100). They represent the total cost of operating the fund and exclude performance costs, incidental costs, and transaction costs for buying/selling the underlying assets.

In order to assess the Total Cost of Ownership, additional fees paid by the client were collected, including execution fees (i.e., the brokerage fee when buying and selling fund shares).

Data collected from distributors were consolidated by computing the weighted average on the number of mutual funds distributed.

Considering the high number of participants among the distributing banks, asset management companies have not been involved in the collection of the data and considered the banks' data to be sufficient for the purposes of the analysis.

Spain

Data collection has been obtained among the most representative financial entities, considering asset managers and distributors (which include banks, saving banks and cooperative banks).

Spanish associations within scope have gathered data from their members with respect to the Total Cost of Ownership (amongst other data) from the following type of financial entities, which represent the majority of the distribution to retail clients in Spain:

- 19 asset managers of Spanish domiciled mutual funds;
- 3 fund flatforms distributing mutual funds in Spain;
- 12 banks and saving banks and 32 cooperative banks.

Financial investment advisors in Spain (as a unique category of financial company, defined as "EAFs" under Spanish regulation) represent a small proportion of the market share (the amount of assets they advise has decreased by 44% according to 2020 data). Therefore, no data has been gathered from them given their lack of representativeness for the purposes of this Study

Entry and exit costs (expressed as % of the amount invested/disinvested), if applicable, were collected as costs actually paid by investors.

Ongoing costs have been collected from manufacturers. They represent the total cost of operating the fund and exclude performance costs, incidental costs, and transaction costs for buying/selling the underlying assets

Data gathered from Spanish entities to show the Total Cost of Ownership are aggregated applying a weighted average. The average is calculated assigning the entity weighted asset (as the proportion of the total assets of all the entities providing data for the purposes of the Study). This methodology allows us to aggregate the data considering the entities' representativeness within the Spanish market.

Data sources and data collection for mutual funds in the Fee-based model

The United Kingdom

The cost of advice presented in our Study comes from 2020 FCA report for costs of advice (initial and ongoing).

Costs of mutual funds such as entry costs, exit costs, and ongoing costs come from KIIDS information we have collected from 28 representative funds on the market (the United Kingdom based and FCA authorized funds).

As per the statistics of January 2021 published by the Investment Association, the total funds under management of the companies that manage selected funds represent more than 52% of the market for the United Kingdom based and FCA authorized funds, in the form of UCITS equivalents and non-UCITS retail funds representing over 770£ billion (897€ billion).

With respect to execution fees, mutual funds do not charge this type of fees

The Netherlands

Regarding the cost of mutual funds such as entry costs, exit costs, and ongoing costs, the data collection is based on KIIDS information we have collected of 31 representative funds.

Data comes from the three largest banks and one asset manager representing more than €370 billion of assets under management.

Data sources and data collection for RSPs

France, Spain, the United Kingdom and the Netherlands

Concerning retailed structured products (RSPs) in France, the source and methodology used are the same as those used for the United Kingdom and the Netherlands with respect to acquisition costs and the average terms of the product.

We collected data from RegXchange[60], a pan-European conduit platform where 25 issuers publish PRIIP and MiFID II regulatory data and documentation.

Issuers disseminate product-related costs to distributors and data vendors through RegXchange, in accordance with MiFID II requirements, using the FinDatEx[61] European MiFID Template format ("EMT").

Data on all RSPs analyzed as part of this Study were sent to RegXchange by its participating members.

RSPs that were issued in 2019 and 2020 are included and took into account the initial information provided to RegXchange by manufacturers.

The report is based on EMT fields, with a particular focus on EMT V3 fields:

- "07100_Financial_Instrument_Gross_Ongoing_Costs" or its EMT V2 or V1 equivalent; and
- "07020_Gross_One-off_Cost_Financial_Instrument_Maximum_Entry_Cost_Non_Acquired" or its EMT V2 or V1 equivalent.

Only investment products, as defined by EUSIPA, were examined in this report. Leveraged products were excluded from the analysis.

The numbers presented are a simple average by ISIN.

The coverage of the RegXchange study from 2019 and 2020 represents more than 70% of retail structured products in the French market.

For France, we collected commissions to distributors on RSPs from the four largest French banks through the French Banking Association ("FBF") with an ex-ante approach.

For France and Spain, we calculated the commissions to the distributor based on the average commission paid by manufacturers to distributors.

Only commissions paid to third-party distributors are concerned. To this end, internal distributions within the same legal entity - when the manufacturer and the distributor are part of the same legal entity - have been excluded from the scope of this analysis.

Please note that, in France and Spain, no additional advice cost is charged on top of the issue price of RSPs, as advisor fees are already embedded in the issue price.

[60] https://www.regxchange.com/landing#/
[61] https://findatex.eu/

Italy

Data collection focused on 20 banks, including those operating with financial investment advisors/tied agents, which represent more than 50% of the RSPs distributed in Italy in 2020. Cost data relevant to assessing the Total Cost of Ownership of RSPs, and the relevant rates of commission paid to distributors were collected[xx].

The RSPs considered in the data collection are products distributed in the primary market (placement); RSPs only distributed in the secondary market have been excluded, as no commission is applied in this channel.

In the case of RSPs placed with both retail and professional clients, only statistics relating to individual retail clients have been collected.

All data was collected with reference to the years 2019 and 2020 (separately).

Data on costs and commissions to distributors

Distributors were asked to provide the data necessary to assess the total cost of ownership paid by investors and the commissions passed back to distributors.

The Gross one-off entry cost (i.e. ask price – fair value) was collected as indicated in the EMT file (field 07020 "Gross_One off_Cost_Financial_Instrument_Maximum_Entry_Cost_Non_Acquired" or its EMT V2 or V1 equivalent). The banks also provided the % of the gross one-off cost that is passed on the distributors.

In order to assess the Total Cost of Ownership, we also collected the average term of RSPs.

All data above was provided as arithmetic average.

Finally, banks were also required to provide the notional amount issued, with the aim to compute structured products' costs and terms weighted by notional issued.

Data sources and data collection for ETFs

The data of ETFs on ongoing costs and execution fees comes from 2018 European Commission Final Report on distribution systems of retail investment products across the European Union[62]. The spread bid/ask is provided by the French Asset Managers Association (AFG).

Execution fees and ongoing costs

In the 2018 above-mentioned report, execution fees are defined as fees charged by an intermediary (e.g. venue or systematic internaliser) for each trade executed by the investor, as a percentage of the amount of money invested.

The above-mentioned report presents an average of the median ongoing costs of 0,43% and an average execution cost of 0,83% for France, Italy and Spain.

Spread bid/ ask

For the purpose of this Study we used existing data to determine spread on ETFs as there is no public data available per country.

We relied on the process set up in France, by the AFG and its members, for the transition period of MiFID II implementation to determine implicit transaction costs based on the new PRIIPS methodology, the so-called "half spread".

The transaction cost proxy is made available to asset managers through the AFG website on a monthly basis. The AMF also has access to this data.

In order to determine the implicit transaction cost proxy, AFG uses the ETFs spread as a basis and therefore collects the bid-ask spreads each month on a selected universe of ETFs.

The ETFs on which data are collected are:

- representative of the most significant asset classes from the EU major issuers;

[xx] For Italy data from RegXchange did not ensure an adequate coverage in terms of RSPs distributed.
[62] https://ec.europa.eu/info/sites/default/files/180425-retail-investment-products-distribution-systems_en.pdf

- with the largest assets under management (AuM);

- and the most liquid ETFs in which retail investors can invest across European Union and the United Kingdom.

We excluded the money market ETFs which are not considered as representative of the core portfolio of a retail investor.

Spreads collected and calculated refer to retail and institutional transactions which could be underestimated for pure retail investors. For 2020 the average spread calculated is 13,5 bps.

According to the public data available in Italy (i.e. spread-analysis – Borsa Italiana), the 2020 ETF’s spread varies between 13 and 15 bps depending on the investment volume (i.e. between 5 000 and 25 000€). Taking into consideration that this data is similar to the ETF average spread calculated with the AFG data in 2020, and that the ETFs catalogue is accessible to different jurisdictions in Europe, we considered that the same ETF average spread could be used for calculation purposes in other jurisdictions under the scope of this Study.

Glossary

- **Acquisition costs** (for retail structured products): Refers to gross one-off entry costs (i.e. the difference between the Ask Price and the Fair Value).
- **Advice Fees:** Monetary amount paid by the retail investor to his/her investment services provider (bank or financial investment advisor) for the provision of investment advice; the fees are expressed as a % of the value of the assets under advice.
- **Average term** (for retail structured products): The average term expressed in years, which represents the average recommended holding period (RHP).
- **Bid/ask spreads on ETFs:** ETFs producers offer to sell ETFs at a given price (the ask price) and offer to purchase ETFs at a given price (the bid price). When an investor initiates a transaction, they will accept one of these two prices depending on whether they wish to buy the security (ask price) or sell the security (bid price). The bid/ask spread represents the difference between the highest price a buyer is willing to pay for an asset and the lowest price a seller is willing to take.
- **Commissions to distributors:** Monetary amount received by the distributors from manufacturers out of the price of financial instruments in remuneration for their distribution and for the related investment services provided to investors. It is usually expressed as a % of the price of the financial instruments.
- **Cost of investment advice:** Amount paid by the investor to the distributor for the provision of investment advice. It could be paid directly by the investor (in the Fee-based model) or indirectly via a commission paid by the manufacturer of a financial instrument based on the amount invested in the latter by a client (in the Commission-based model).
- **EMT:** The European MiFID II template is the agreed format between manufacturers and distributors of financial instruments in order to exchange information related to target markets and costs of financial instruments.
- **Entry costs[63]:** One-off fees charged by a manufacturer when subscribing into a mutual fund.
- **Execution fees:** Fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees apply for listed financial instruments, including ETFs.
- **ETFs:** Exchange-Traded Funds
- **Execution services:** Refers to the two investment services that are the execution of orders on behalf of clients and the reception and transmission of orders in relation to one or more financial instruments **(RTO)**.
- **Exit costs[64]:** One-off fees charged by a manufacturer when redeeming a mutual fund.
- **Inducements:** Any monetary amount paid or received, or any non-monetary benefit provided or received, by investment firms, in connection with the provision of an investment service or ancillary service to the client.
- **Ongoing costs[65]:** All ongoing costs and charges related to the management of the financial instrument that are deducted from its value during the investment period.
- **MiIFID II:** Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments.
- **RHP** (for retail structured products): Recommended Holding Period.
- **RSPs:** Retail Structured Products.
- **RTO:** Reception and transmission of orders in relation to one or more financial instruments.
- **Total Cost of Ownership:** The sum of the cost of the products and the costs of the related investment services of a financial instrument for a retail investor.

[63] Definition from 2018 European Commission Final report on distribution systems of retail investment products across the European Union.
[64] Definition from 2018 European Commission Final report on distribution systems of retail investment products across the European Union.
[65] Definition from Commission delegated regulation (EU) 2017/565 of 25 April 2016, Annex 2.

List of Professional associations

To conduct this Study, KPMG relied upon local market knowledge by conducting interviews with local market associations in each country that are part of this Study, which include:

The Investment Association in the United Kingdom.

The Dutch Fund and Asset Management Association (DUFAS) in the Netherlands.

The French Asset Managers Association (Association Française de la Gestion financière, "AFG"), the French Banking Federation (Fédération Bancaire Française, "FBF"), the French Financial Markets Association (Association française des marches financiers, "AMAFI"), the French Retail Investment Structured Products Association (Association française des produits d'investissement de détail et de bourse, "AFPDB") and four financial advisors associations (the Association Nationale des Conseils Financier, "ANACOFI", the Chambre Nationale des Conseils Experts Financiers, "CNCEF", the Chambre Nationale des Conseils en Gestion de Patrimoine, "CNCGP", and the La compagnie des CGP), in France.

The Spanish Association of Collective Investment Schemes and Pension Funds (Asociación Española de Instituciones de Inversión Colectiva y Fondos de Pensiones, "INVERCO"), the Spanish Banking Association (Asociación Española de Banca, "AEB"), the Spanish Saving Banks Association (Confederación Española de Cajas de Ahorros, "CECA"), and the Spanish National Union of Cooperative Banks (Unión Nacional de Cooperativas de Crédito, "UNACC"), in Spain.

The Italian Banking, Insurance and Finance Federation (Federazione Banche Assicurazioni Finanza, "FeBAF"), the Italian Banking Association (Associazione Bancaria Italiana, "ABI"), the Italian Investment Management Association ("ASSOGESTIONI"), the Italian Association of Intermediaries (Associazione delle Società per la Consulenza agli Investimenti, "ASSORETI") The Italian Association of Financial Markets Intermediaries (Associazione Intermediari Mercati Finanziari, "ASSOSIM"), in Italy.

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- The changing shape of the consumer market for advice: Interim consumer research to inform the Financial Advice Market Review (FAMR), August 2018
- The LangCat: "Serenity, Courage, Wisdom:" Disruption and innovation in retail investment pricing for the next five years
- Additional external sources:

The initial fee for advice is often charged with a flat amount, for example:

- 1 500£ i.e. 1,5% for a 100 000£ investment amount. Source: https://www.thetimes.co.uk/money-mentor/article/financial-advice-cost/);

- 589£ i.e. 2,94% for a 20 000£ investment amount. Source: https://www.which.co.uk/money/investing/financial-advice/how-much-financial-advice-costs-a1dwl4f8j8pf;

- A minimum fee of 3 000£ i.e. 3% for 100 000£ of investment amount. Source: https://frazerjames.co.uk/how-much-does-a-financial-advisor-cost/;

- 2 577£ upfront i.e. 2,57% for a 100 000£ investment amount. Source: https://2021guide.vouchedfor.co.uk/cost-of-advice.

The ongoing fee for investment advice is generally confirmed around 0,80%:

- 0.81%. Source: https://langcatfinancial.co.uk/wp-content/uploads/2021/01/Better.-Stronger.-Faster.pdf;

- 0,79%. Source: https://moneytothemasses.com/help-and-guidance/how-much-does-financial-advice-cost;

- Between 0,5 and 1,12%. Source: https://2021guide.vouchedfor.co.uk/cost-of-advice.

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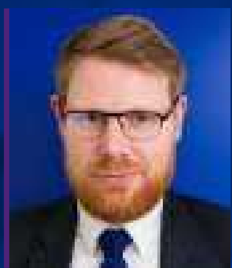

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