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Retail Investment Strategy – Where is the cut in red tape?

At a time when Europe urgently needs to close its growth financing gap and foster a stronger culture of retail investment to remain competitive in a rapidly changing global environment, the EU's commitment to regulatory simplification remains largely rhetorical. While policymakers rightly call for reducing red tape and strengthening Europe's competitiveness, the Retail Investment Strategy (RIS) moves in the opposite direction. Rather than facilitating retail participation in capital markets, RIS introduces highly prescriptive, process-driven and exceptionally complex requirements that will significantly increase administrative burdens for asset managers and supervisory authorities alike, without delivering any tangible benefits for retail investors. The proposal is yet another example of disproportionate regulation – both at Level 1 and at Level 2, where the details have yet to be written –, despite longstanding calls from industry and policymakers to focus on the consistent implementation and enforcement of existing rules across Member States.

The growing concern about regulatory overload is shared far beyond the financial industry. In September, 13 Member States called for a period of implementation, consolidation, simplification and better interoperability of existing legislation before introducing additional regulatory layers. This message was reinforced in October by the Heads of Government of Germany, Italy and Belgium, who stressed that, in light of growing geopolitical challenges, Europe's regulatory framework must avoid creating additional burdens. Against this backdrop, RIS represents the wrong policy approach at the wrong time.

A particularly striking example is the new value-for-money framework, which suffers from a fundamental flaw: it presumes that tens of thousands of fund share classes can be assessed objectively and consistently across Europe by both firms and supervisors. In reality, no qualitative or quantitative methodology exists, or is likely to emerge, that could credibly perform such a task at reasonable cost, since the European fund market is too diverse. While certain criteria may work well for one category of products, the very same set of criteria can make comparisons across other groups of share classes or investor groups misleading or even harmful. The proposal therefore threatens to create a vast bureaucracy on both the public and private side, dedicated to administering a concept that cannot be measured with the precision required for supervisory intervention. The EU Taxonomy for environmentally sustainable activities provides a cautionary example: initially expected to create a comprehensive framework capable of classifying all economic activities, it shows to date methodological challenges and had to be repeatedly adjusted and supplemented by numerous Q&As to reflect highly diverse economic realities through a detailed central rulebook. RIS risks repeating this experience. Rather than strengthening competition, it is likely to replace market discipline and investor choice with regulatory discretion, generating complexity, legal uncertainty and significant compliance costs without any evidence of corresponding benefits for retail investors.

Europe needs a regulatory framework that encourages retail investment and strengthens capital markets. The RIS moves in the opposite direction**.** The best way to reduce bureaucracy is to avoid creating new bureaucratic burdens.

In the spirit of better regulation, BVI[1] therefore urges Members of the European Parliament to vote against the RIS in the upcoming plenary session.

[1] BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 114 members manage assets of some EUR 5 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 26%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

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