By e-mail only: Mairead.mcguinness@ec.europa.eu

Ms Mairead McGuinness
European Commissioner for Financial services, financial stability and Capital Markets Union

The Hague, 12 January 2023

Re: *ban on inducements/Retail Investment Strategy*

Dear Commissioner McGuinness,

Please allow me to approach you on the important matter of inducements in the offering of investment services to retail investors. I do so, closely following our letter to you of 5 January 2023 on virtual only general meetings of shareholders which moots our plea to introduce a pan-European mandatory requirement, such that general meetings of shareholders of listed companies must be held physical or hybrid, *i.e.* not virtual-only (unless extreme conditions, like the recent pandemic, would leave companies with no other choice).

It has come to our notice that you are considering introducing a ban on inducements. Inducements for investment services on one hand, and virtual general meetings on the other, may seem disparate. European Investors-VEB (EI) – given its longstanding mission to represent investors throughout Europe – would point out, however, that both issues share a common feature: they likely obstruct the success of the Retail Investment Strategy (the RIS).

It is with that in mind that I write to express EI's wholehearted support for a categoric ban on inducements. By banning inducements, you deliver on advancing the transition to a sustainable and more competitive European economy that would serve all European citizens – this meets with our applause. Europe needs a 'Schengen' for financial markets, whereby everyone, including young people and the self-employed, is encouraged to invest in order to provide for their future retirement. The latter means: investing in real assets listed on EU financial markets. With those investments, new businesses can sprout, and current businesses and the most efficient and competitive revenue models can expand.

The retail points of sale of investment services are the main source of investor information/education for EU citizens. Intermediaries' advice may be biased to products for which they are rewarded higher. Put differently: there is precious little access to bias-free investment services, resulting in little access to investment products that are closest to the capital markets, and to the real economy, such as low cost ETFs, listed equities and bonds. Fees, commissions, or any monetary and non-monetary benefits from third parties paid to investment firms are the single-most important barrier to the success of the Capital Markets Union (CMU). I would emphatically promote EU-wide mirroring of the existing categoric prohibition of third-party payments as introduced in some Member States.

This means expanding the MiFID II prohibition on third-party payments: a) outside independent and individual asset management (hence: encompassing execution only services); and b) to financial products outside the scope of MiFID II.

To garner confidence and to prevent disillusionment, current revenue models of the 'powers that be' (banks, insurance companies, asset managers) need drastic revision. We can expect the less competitive to defend a revenue model which doesn't serve their clients' interests. Regulators with a key focus on market stability might be tempted to support their arguments which would include an underestimation of the willingness and ability of retail clients to use execution only and – where appropriate – pay for independent advice separately. In an ideal CMU reality, investors no longer need to worry about biases impacting the quality of advice and (implicit) overpricing of their transactions and contracts, offered by a chain of intermediaries which they themselves cannot select. I expect regulators with a key focus on conduct supervision, with investor and consumer protection at the very heart of their mandate and with more developed experiences regarding the impact of biases and heuristics to be, like us, against inducements. Which mandate should prevail? Defending old-industry design or allowing innovation with client-centricity? What would make Europe stronger internationally? And what would be the best way to deliver those benefits to the citizens of Europe? I would know the answer and believe that it coincides neatly with the Commission's strategy. Hence, our full support for the good work of the European Commission in investor and consumer protection, which, ideally, would include the introduction of a categoric ban on inducements across Europe's financial sector.

Yours sincerely,

Gerben Everts
Executive director European Investors-VEB