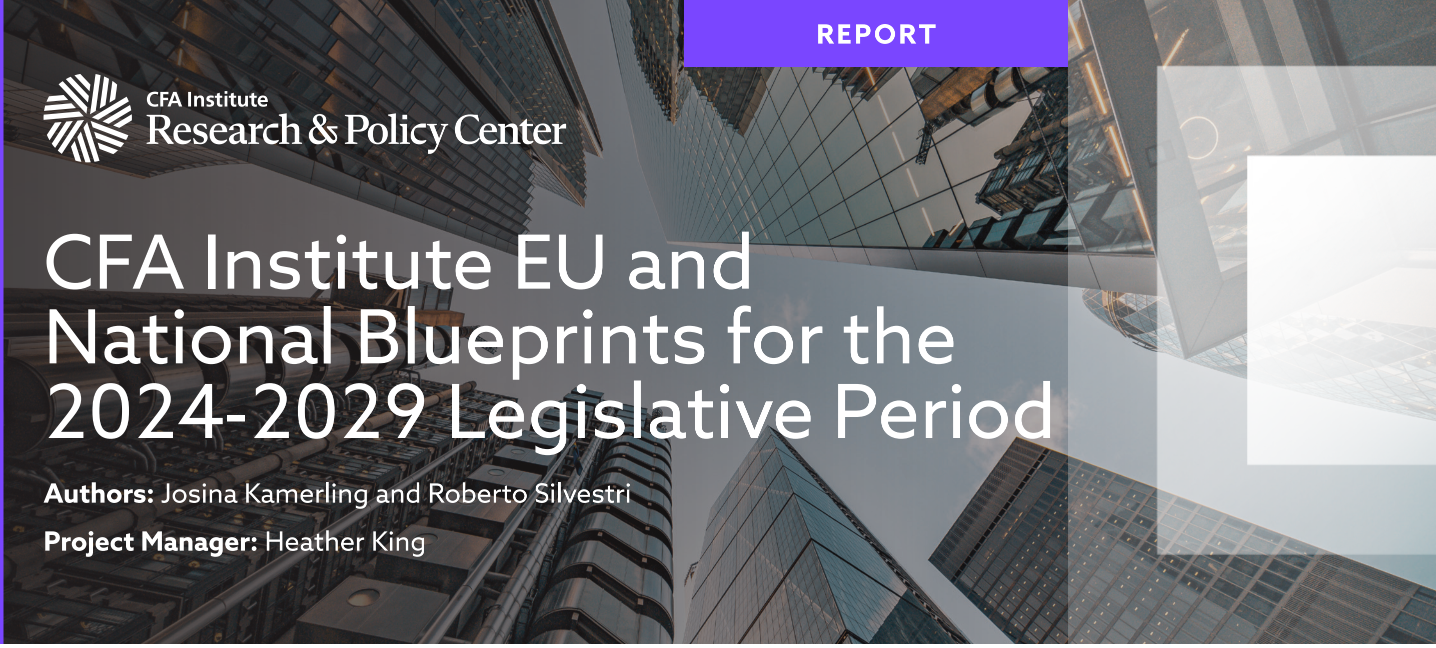
CAPITAL MARKETS

REPORT

CFA Institute Research & Policy Center



CFA Institute EU and National Blueprints for the 2024-2029 Legislative Period

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CFA Institute extends our deepest gratitude to the Advocacy Committees of our CFA societies. Your invaluable insights and expertise have been instrumental in shaping this EU blueprint.

Thanks to the Advocacy Committee of:

CFA Society Belgium	CFA Society Germany	CFA Society Poland
CFA Society Croatia	CFA Society Greece	CFA Society Portugal
CFA Society Cyprus	CFA Society Ireland	CFA Society Romania
CFA Society Denmark	CFA Society Italy	CFA Society Spain
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Executive Summary

The CFA Institute Blueprint for the 2024-2029 legislative period in the EU is a comprehensive document. It outlines the position of CFA Institute and its main priorities for the next five years. This blueprint follows a previous one that was published in 2019, which provided an overview of key regulatory priorities and positions in the EU raised in past CFA Institute research.

It focuses on five main topics: Resiliency of Capital Markets, Technology, Business Conduct, Sustainability, and Pensions. All these topics align with CFA Institute research and standard research themes.

The blueprint follows a novel approach. In addition to underlining the main results of CFA Institute past research on the Research, Advocacy and Standards it includes insights from many CFA Institute societies in the EU. These societies have their own blueprints, emphasizing key regulatory issues and priorities within their local markets. By including CFA societies' main viewpoints, this blueprint offers a range of perspectives. It also highlights both similarities and differences in opinions on the main regulatory priorities that concern the four main themes.

Finally, this new edition of the blueprint features a color-coded priority page. The vibrant colors help to visually rank the most important regulatory priorities for CFA Institute and its local societies in the EU.

National blueprints and detailed color-coded priority pages by CFA societies in the EU (and Switzerland) are included in the annex of this document. They reflect societies' own perspectives and priorities for the next legislative period in the EU.

Key Recommendations for EU Regulators:

- Adopt an ambitious agenda for the development of capital markets in the EU. Implement significant reforms at a horizontal level, covering banking, asset management, and insurance sectors. Tweaking current EU legislation would not lead to effective integration, markets development, or the mobilization of private capital.
- Simplify and streamline the procedures of scrutiny and approval of EU prospectuses.
- Provide a single definition of small and medium enterprises (SMEs). Alleviate disclosure and listing requirements and introduce specific aid measures for small companies.
- Introduce a disclosure-based regime for private markets to easily prevent issues concerning conflicts of interest, opacity, and asymmetries of information.
- Harmonize rules on insolvency proceedings across the EU to make the outcome more predictable across the EU.

- Collaborate with other regulators across the globe on a common definition of investment recommendation. This includes financial promotions and advertisements by finfluencers.
- Avoid imposing a full ban on inducements to stop negative implications on the variety of products accessible to EU investors.
- Introduce measures addressing ethical concerns and investor protection issues surrounding the use of AI.
- Use a balanced approach in the regulation of cryptoassets by focusing on the interests of both crypto providers and investors, while still fostering innovation.
- Implement gamification techniques to include features for review and reflection for investors (introduce a little friction in the use of these apps without limiting investor choice).
- Introduce a clear certification requirement that investment professionals need to have when providing investment advice and other financial services in the EU.
- Assess knowledge of finance to qualify investors to choose from a broader array of investment products. This could be done through a comprehensive finance test and holding the minimum required amount of an investment portfolio.
- Address the challenges of unreliable ESG data, the high costs of collecting such data, and training of personnel on ESG incorporation and sustainability thinking.
- In light of the current review of the SFDR, EU policymakers should clarify the language and terminology in articles 8 and 9 of the regulation.
- Avoid promoting deviations from the “one-share-one-vote” principle. Multiple voting rights weaken minority shareholder rights to participate in critical company decisions.
- Enhance current rules on corporate governance to further strengthen shareholders rights and improve accountability for minority shareholders.
- Encourage simplification of PEPP. Analyze and address the current issues that have caused a slow take-up of PEPP and encourage further harmonization of tax incentives for this product.
- National policymakers should implement significant reforms to address the current challenges in their retirement income systems and promote private pension plans to further develop capital markets.

Key recommendations for the finance industry:

- Engage in educational and informational campaigns to make social media users aware of the financial risks associated with promotions and advice from finfluencers. However, such initiatives should follow some independence standards and should not include any marketing materials.
- Integrate ethical considerations in the use of AI and technology in investment management.
- Simplify the language of point-of-transaction disclosures in gamification.
- Launch financial education initiatives for investors, companies, and financial professionals to increase knowledge on investments in capital markets.
- Increase engagement efforts to ensure that shareholders can actively take part in critical company and investment decisions. This helps to align their interests with those of board directors and management.

CFA Institute color-coded priority page

Themes and Subtopics

Priority	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Development of capital markets Inducements	Ethics in AI	MiFID knowledge and competence	SFDR CSRD Corporate Governance	
Priority II	Finfluencers	MiCA	Retail Investment Strategy Value for Money	EU Green Bond Standard	Pension reforms PEPP
Priority III	Gold-plating	Cloud and data security	Financial education	EU Taxonomy	

CFA Society Cyprus color-coded priority page

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Retail Investor Protection	Regulate gamification practices	Adoption of Union-wide code of conduct	Union-wide climate change education strategy	PEPP
Priority II	Union-wide financial education strategy	AI legal framework	Adoption of Union-wide minimum standards for certifications and continuing education	Double materiality concept clarification	Address pension gap and gender pensions gap
Priority III	Eliminate local market fragmentation	Cloud and data security	Address mis-selling and misinformation	EU Green Bond standard	Union-wide mandatory employer contributions

CFA Society Denmark color-coded priority page

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Finfluencers	Framework for AI		Double materiality Multiple Voting Rights	
Priority II	Financial literacy	Gamification	Transparency in AI decision making	EU green bond standard	PEPP
Priority III		MiCA		Voting rights	

CFA Society Finland color-coded priority page

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	EU-wide financial literacy courses (web or app) Unification of client classification across the EU	Documentation and transparency of the AI-based decision making		Fiduciary duty (returns vs sustainability) Technological neutrality and inclusiveness of the EU Taxonomy	
Priority II	Transparency of fees ELTIF 2.0 development			Status clarification of green bonds lacking EU Green Bond label	
Priority III	Measures supporting competition vs cost benchmarking Regulation of finfluencers				Broadening PEPP market and sharpening features (taxation, costs, portability)

CFA Society France color-coded priority page

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Financial Education Retail Investor Strategy	MiCA AI	AI and Ethics	SFDR and CSRD harmonization Fiduciary duty Double materiality	
Priority II	Liquidity Mis-selling Finfluencers	Gamification	Value for Money	Green bonds ESG ratings	DB to DC
Priority III	Passive investments	Cloud and data security		Multiple voting rights	

CFA Society Germany color-coded priority page

Themes and Subtopics

Priority	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Finfluencers	Gamification	Financial education	SFDR Reporting Engagement Green Bonds	Audit ESG Ratings/ Risks Behavioral Science
Priority II	Inducements AI and Sustainability Impact	MiCA	AI and Ethics	Multiple Voting Rights Shares	PEPP Pension Reforms
Priority III	CMU Clearing Liquidity Fund Ownership	AI Framework Cloud and Data Security	Value for Money Mis-selling		

CFA Society Greece color-coded priority page

Themes and Subtopics

Priority	Resiliency CM	Fintech	Business Conduct	Sustainability	Other / Pensions
Priority I	Capital Markets Union Finfluencers	Robo-advisors AI deployment	AI and ethics Financial education	Reliability and comparability of disclosures	**Other** Lack of saving capacity and culture Increase women's participation rate
Priority II	Unified Risk model and return metrics for funds	MiCA expansion	MiFID II certification of training of investment professionals (waiver for CFA charterholders)	Increased regulatory burden Interoperability of disclosure standards	**Pensions** Financial literacy will improve culture of saving
Priority III	Need for standardization to prevent mis-selling	Gamification Cloud and data security	Value for Money	Higher standards needed for green bonds	**Pensions** Higher standards needed for green bonds

CFA Society Ireland color-coded priority page

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Financial Education CMU ELTIF Liquidity	AI and EU AI Act Data Transparency		SFDR Reporting Data Consistency Onerous Regulation	Onerous Regulation in ESG
Priority II	Fund ownership Clearing	MiCA Finfluencers	AI and Ethics MiFID	Engagement across the sector	PEPP
Priority III	Mis-selling	Gamification Cloud and Data Security	Value for Money	Green bonds	

CFA Society Italy color-coded priority page

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Finfluencers Inducements	AI Framework Digital Euro	Financial Education Value for Money Mis-selling (particularly in private markets)	SFDR Green Bonds (including Sustainability-Linked Bonds and Transition Planning) Multiple Voting Rights Shares	
Priority II	Securitization	Cloud and data security Gamification	MiFID II certification	Reporting ESG Ratings	
Priority III	CMU Clearing Liquidity Fund Ownership	MiCA		Engagement	

CFA Society Netherlands color-coded priority page

Themes and Subtopics

Priority	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Financial literacy	Financial literacy via technology		Energy transition, circularity and biodiversity	Promotion of second pillar funded workplace pensions
Priority II			Gold-plating	More attention to social topics within ESG	Focus on long-term investing and private investments
Priority III				Impact investments	

CFA Society Portugal color-coded priority page

Themes and Subtopics

Priority	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Finfluencers		Financial education		
Priority II					Promote EU-wide action to foster risk-return aware decision making by future beneficiaries
Priority III				Need to balance SFDR disclosure quality with burden	

CFA Society Romania color-coded priority page

Themes and Subtopics

Priority	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	EU legislative framework	AI regulation – attention on not stiffening innovation		Green Bonds and Sustainability: ensuring that EU taxonomy does not hinder development of the new technologies	
Priority II	Banking union	Crypto assets – ensure a level playing field with other financial instruments	Re-evaluate cost disclosure requirements to prevent information overload	Enhancing the insurance sector's contributions to climate adaptation	Private pension systems should be encouraged by EU legislation
Priority III	Restriction for investors to qualify as professional investors		Any review of inducements measures should be conducted with a longer-term perspective, taking into account the evolving needs of individual investors	Addressing potential regulatory asset bubble	

CFA Society Spain color-coded priority page

Themes and Subtopics

Priority	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	SMEs obstacles	ICT providers concentration Regulatory Sandbox	RIS and Value for Money Financial Education	Investor behavior	
Priority II	Gold-plating	Cloud and Data Security AI Sandbox		Green bonds Green products and Financial Education	Pensions reform
Priority III	Absence of IPOs US ETF				

CFA Society Switzerland color-coded priority page

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I			MiFID II Certification	SFDR	Flexibilization of Asset Allocation, Professionalization of pension fund governance and investment professionals
Priority II	Inducements Finfluencers	AI Framework, MiCA, Cloud and Data Security, Gamification		Green Bonds	
Priority III	Retail Investment Strategy, Clearing, Liquidity, Fund Ownership, AI and Sustainability Impact		AI and Ethics	Reporting, Multiple Voting Rights, Engagement	

1. Resiliency of Capital Markets

CFA Institute position:

- To develop strong capital markets and achieve the Capital Markets Union, EU policymakers should focus on significant reforms. Tweaking current legislation would not be enough to advance capital markets and mobilize private capital in the EU.
- New reforms should be adopted at a horizontal level. They should cover banking, asset management, and the insurance sector. To create a Savings and Investment Union, policy measures should focus on the supply and demand of capital, the institutional framework, and the market structure governing the movement of that capital (as highlighted in the Enrico Letta report).
- Stronger connection and engagement between the finance industry and investors is fundamental to making capital markets more attractive for retail investors.
- Targeted policy measures are needed to support SMEs, encouraging them to list and continue to operate in the EU.
- A complete ban on inducements in the EU is not a viable solution. It would have a negative impact on the range of products available to investors.
- Regulate finfluencers’ financial promotions and advertisements.

Public vs. private markets

As per the "CFA Institute and BETTER FINANCE Report on the Review of the Listing Rules in the EU," excessive public market costs (e.g., those linked to prospectus rules) and the lack of integration across European markets are the main obstacles to the development of capital markets. These barriers and the end of cheap money (sharp rises in inflation and interest rates) also impact financing through private markets.

Key takeaways of the report:

- High costs of accessing public markets and the scarce level of integration of European markets are the primary obstacles to the development of EU capital markets.
- The Prospectus Regulation should be reviewed and simplified. The procedures for scrutinizing and approving EU prospectuses need to be streamlined and shortened to reduce the burden on new issuers of investment securities for the public.
- EU regulators should provide a single definition of small and medium enterprises (SMEs) to easily adopt new measures supporting these companies.
- Low investor participation in SMEs growth markets is due to a lack of liquidity and research coverage.
- Regulators should further reduce listing and disclosure requirements for SMEs and provide specific aid packages to support small companies.

The surge of investments in private markets has increased long-standing concerns about governance risks. The CFA Institute report "Private Markets: Governance Issues Rise to the Fore," published on June 18, 2024, highlights issues related to

1) frequency and accuracy of valuation reporting,
2) the frequency, comparability, and accuracy of performance measures, and
3) the fairness and transparency of fees.

The report found that some levels of regulation in private markets are necessary as private funds are interconnected with public finance and the real economy, raising potential financial stability risks.

Cross-border provision of financial services and products

Diverse implementation of EU legislation, differing national insolvency frameworks, and taxation systems hinder the cross-border provision of financial services and products within the EU. Additional requirements and obligations by member states when transposing EU directives into national law, popularly known as gold-plating, is an established practice.

The CFA Society Poland "Report on Gold-Plating in Polish Capital Market Law" identified several cases of gold-plating within Polish legislation. It advocates for measures to eliminate gold-plating practices in the future and the introduction of a legal and clear definition of gold-plating. CFA Society Poland has also been conducting broader research on gold-plating practices across the EU, examining examples from Germany, the Netherlands, Luxembourg, Malta, Spain, Italy, and Ireland.

The European Commission legislative proposal on the harmonization of certain aspects of national insolvency proceedings is a positive step. It aims to enhance the predictability of the outcomes of insolvency proceedings for cross-border investors.

Members of our CFA societies in Finland, Luxembourg, Romania, and Ireland have also raised concerns about the diversity of national insolvency proceedings. In particular, members of CFA Society Finland emphasize that an EU-wide pre-packaged insolvency procedure would accelerate the refinancing of businesses, reduce frictional costs, and eliminate legal ambiguity for cross-country investors.

Finfluencers

EU regulators should consider introducing specific rules on finfluencers and financial promotions on social media or clarify how existing rules apply to finfluencers' activities.

The report by CFA Institute entitled "The Finfluencers Appeal: Investing in the Age of Social Media" stresses that policymakers should design a common definition of investment recommendation that comprises finfluencers' financial promotions and advertisements. Policymakers should engage with finfluencers to explain which of their activities are regulated.

Policymakers and industry players should also launch informational campaigns to educate social media users about the risks surrounding financial promotions and information provided by finfluencers.

Inducements

As per the CFA Institute Global Survey on Inducements, a complete ban on inducements is not a viable solution to address potential conflicts of interest and attract more retail investors into EU capital markets. This is because fee-based advice is a consolidated structure in many EU capital markets.

A total ban could negatively impact the variety of products offered to clients as distributors may reduce offering third-party products, according to CFA Institute members. However, a partial ban on execution-only services, where no advisory relationship exists, would make sense because investors do not receive any value added from these investment services.

Transition-based legislation, based on a step-by-step approach towards a total ban on inducements (as a final step), may prevent negative implications on EU markets.

Views of CFA societies:

- A comprehensive prohibition on inducements paid to financial advisor is not the optimal solution. The introduction of a total ban could negatively affect the diversity of products available to clients. It could also lead distributors to reduce or stop offering third-party products, increasing costs for private investors. - Members of CFA Society Germany.
- A total prohibition of commissions should be a regulatory objective only in the medium term. This would eliminate any perception of a conflict of interest. In the short term, regulators should allow for a seamless transition, where the customer can be directly billed for the consultancy services that they receive. - Members of CFA Society France.
- Restrictive measures on inducements would have a significant impact on Luxembourg's investment fund market. This is because independent fund platforms and distributors are mainly (retro) commissions- and kickback-driven. Introducing a ban (or stricter restrictions) on inducements would result in small distributors and investment companies losing market shares to larger and more vertical financial groups. - Members of CFA Society Luxembourg.
- The Italian wealth management market is heavily based on the practice of inducements. The commission-based model ensures that a wide range of products and services remain accessible to retail investors, many of whom may not be willing to pay directly for investment advice. A ban on inducements would leave a significant portion of retail investors unattended. It could significantly reduce both profits in the Italian banking sector and financial advisors' remuneration. - Members of CFA Society Italy.
- Members of local societies in Finland and Denmark have slightly different views:
    - Support for the original European Commission proposal to ban commissions for execution-only clients. Many investors can make sound investment decisions without any help and should not be obligated to pay for advice and distribution fees. - Members of CFA Society Finland.
    - Backing the proposed partial ban on inducements. It ensures the provision of unbiased and fair advice and preserves investor interests. - Members of CFA Society Denmark.

European Long-Term Investment Funds (ELTIF)

To attract retail investors in capital markets for a long-term period, ELTIF is the key. Members of several CFA societies in the EU agree that ELTIF could contribute to achieving the Capital Markets Union.

- ELTIF can mobilize funds for long-term projects within the EU. However, ELTIF can be successful only if the interests of all parties, such as returns, low turnover, and costs, are aligned. - Members of CFA Society Finland.
- European Securities and Markets Authority's (ESMA) technical standards for ELTIF should align with wider trends and best practices in liquidity management. - Members of CFA Society Ireland.

2. Fintech

AI

Emerging technologies and AI in investment management are enhancing clients' services and experiences by offering more personalized products.

CFA Institute Research and Policy Center recently conducted a global assessment of the role of emerging technologies in the investment management process. Our research aims to provide industry stakeholders with a roadmap for creating value from the multifaceted and prolific amounts of data generated in today's world.

We used a two-pronged research method in our information-gathering process: a global cross-sectional survey in February 2024 was followed by a series of roundtable discussions in April 2024. We designed four distinct groups of roundtables to find out the unique perspectives of regulators, executives, practitioners, and learning specialists.

Regulators worldwide have identified the following key challenges:

- Complexity and opacity of AI models.
- Data privacy and protection.
- Skills gap (inadequate number of individuals with enough knowledge in both finance and technology).
- Lack of international coherence in regulatory approaches to AI policy.

And participants found that AI and big technologies could potentially enhance the regulatory process in areas such as risk management, market surveillance, predictive analytics, and behavioral pattern analysis.

CFA Institute position:

- Regulations should address ethical and investor protection concerns about the use of AI. Balance these regulations to ensure that they do not stifle innovation.
- Balance the interests of both crypto providers and investors to regulate cryptoassets.

In 2022, CFA Institute released the report "Ethics and Artificial Intelligence in Investment Management." It looks at how investment professionals using AI should ensure that technology supports investor interests and objectives ethically. The report recommends the following:

- Ethical considerations in using AI in investment management should include the integrity of data, the accuracy and validity of models, transparency and interpretability of algorithms, and accountability structures.
- AI models should avoid bias and excessive complexity or opacity so they can be interpreted and understood by all relevant stakeholders.
- Conduct regular model testing and review to ensure that applications perform and evolve as expected.
- Following an ethical decision framework is necessary. It addresses key questions that investment professionals and teams should consider when using AI at each stage of the workflow.
- Potential biases in data or model learning features, the interpretability of the contribution of features to the outcome, the fairness and accuracy of outcomes, and the ongoing suitability of models to client objectives and constraints should be considered.

The EU AI Act, approved by EU legislators in May 2024, introduces new rules that would:

- Ban AI applications that threaten citizens' rights.
- Impose obligations on high-risk systems.
- Require transparency for general-purpose AI systems.

CFA societies advocate for regulating the use of AI in the EU to address ethical concerns and investor protection issues.

- A regulation that has a clear scope of application, addresses the challenge of determining responsibility where the creator cannot predict the AI's results and prevents misleading practices by ensuring that simple algorithms or basic automations are not marketed as AI. - Members of CFA Society Italy.
- Spain is the first country to implement an AI Sandbox. It tests the application of certain requirements foreseen in the EU AI Regulation to high-risk artificial intelligence systems. Its aim is to obtain evidence-based guidelines and experimentation that will help companies comply with the regulation. - Members of CFA Society Spain.
- There is a need for rules around AI liability. Determining who bears responsibility for the adverse actions of artificial intelligence is crucial for the welfare of financial institution customers, albeit extremely challenging. Regulators should clarify which financial institutions and algorithm developers are accountable for the actions of algorithmic AI. - Members of CFA Society Poland.
- The new AI regulatory framework should be flexible enough to adapt to different industries while establishing a baseline for safety and ethical considerations. Additionally, different sectors may have unique considerations and risks associated with AI. Therefore, specific EU level 2 and level 3 rules tailored to specific industries could enhance their effectiveness. - Members of CFA Society Switzerland.
- Regulations should impose strict boundaries on the liberties granted to an AI robot to interpret a client's needs from a conversation or text into investment recommendations. - Members of CFA Society Finland.
- EU legislation imposing burdensome requirements could stifle innovation in AI. - Members of CFA Society Romania.
- Bias and data transparency are the main aspects of AI that should be monitored by regulators. - Members of CFA Society Ireland.
- Support for the EU AI Act and its approach to managing AI risks while promoting innovation. - Members of CFA Society Denmark.
- Use of AI should be regulated to address ethical concerns such as breach of privacy and data security, lack of liability for incorrect or unfair decisions, the tendency of algorithms to favor certain patterns and algorithmic manipulation of financial markets, increased risk of systemic crises and bubble bursting, decision-making without sufficient human supervision, and employment automation posing a threat to people who may lose their jobs. - Members of CFA Society Luxembourg.

MiCA

The Markets in Crypto-Assets Regulation (MiCA) entered into force in June 2024. It is the new legislative framework regulating asset-referenced tokens (ARTs), electronic-money tokens (EMCs), and other cryptoassets that are not covered by any other EU legislation. MiCA introduces rules on the issuance and trading of these cryptoassets, and additional requirements for "significant" ARTs and EMTs.

The report by CFA Institute "Cryptoassets: Beyond the Hype," published in 2023, advocates for a strong regulatory framework to benefit both crypto providers and users. However, CFA Institute recommends that such rules should not hinder innovation.

Given the constant evolution of the cryptoasset landscape, legislation should be regularly updated to effectively address emerging challenges. - Members of CFA societies in Ireland and Switzerland.

Calls for a ban on the proof-of-work consensus mechanism because it conflicts with climate change and sustainability goals. - Members of CFA Society Switzerland.

Support for a level playing field with other financial assets in the selling, promoting, and trading of cryptoassets. - Members of CFA Society Romania.

Cloud and data security

The asset management sector is relying heavily on cloud computing. Members of CFA societies are concerned about the cyber risks that could impact financial stability and data security.

- Address these risks by replicating critical data in secure off-site locations, independent of the cloud infrastructure accessed by asset management companies. This helps to safeguard against data manipulation or access restrictions. Regulators should put in place robust security testing of cloud systems, comprehensive supervision, and effective crisis management frameworks. They should also address the concentration of market power among a limited number of cloud providers. This is essential to prevent monopolistic situations that could hinder competition and innovation. - Members of CFA Society Spain.
- Concerns of Members of CFA Society Italy:
    - Costs associated with cloud services, especially if the usage of cloud resources is not optimally managed.
    - Vendor lock-in: when an organization moves its operations to the cloud, it can be challenging to migrate to a different provider or return to an on-premises solution due to the high switching costs and technical complexities involved.

    - Concentration of power by a few major players in the cloud industry: this situation could result in high prices and little innovation over time.
    - Possibility of data breaches and non-compliance with regulations such as the General Data Protection Regulation (GDPR).
    - Possible issues with the reliability and latency of cloud services.
    - Environmental sustainability of cloud services as these tools require high power and cooling consumption.

- Cloud services are vulnerable to distributed denial-of-service (DDoS) attacks. This could have a negative impact on time-critical industries, such as the asset management sector. Other concerns are resilience, data security, geographic considerations, operational risks, compliance, vendor dependencies, cost management, and data ownership. - Members of CFA Society Switzerland.

Gamification

Gamification is being used in financial services to improve investor engagement, literacy, and other positive outcomes. But gamification can also drive excessive trading, induce trading in complex or high-risk products, or encourage other harmful behaviors, all at the expense of clients.

In 2022, CFA Institute published the report "Fun and Games: Investment Gamification and Implications for Capital Markets." It offers the following recommendations for regulators:

- Implement features in the app that allow for review and reflection. The idea is to introduce some friction in the system without taking away investor choice.
- Encourage market participants to provide transaction disclosure in plain language. This will help investors to slow down, think about their actions, and ensure that their decisions are right.
- Introduce warning labels in intermediary communications, such as, excessive trading could injure your long-term financial health.

Views on whether gamification practices should be regulated:

- Introduction of rules aimed at preventing manipulation and ensure that these investment techniques do not result in irresponsible behavior. Transparency in the use of gamification and highlight its psychological impact on investors. - Members of CFA Society Denmark.
- Supplementing the current regulatory framework with adequate financial education practices should be enough to prevent misconduct. - Members of CFA Society Italy.
- Current rules are enough to address gamification issues. However, existing rules should be better enforced. - Members of CFA Society Switzerland.

3. Business conduct

CFA Institute position:

- A certificate should be made mandatory for investment professionals who offer investment advice or offer financial services in the EU. This certificate demonstrates that they have a sufficient level of knowledge and competence in finance.
- A fundamental criterion for classifying investors as professionals must be their knowledge of finance. This can be assessed through a comprehensive finance test and having a minimum amount of investment portfolio.

Financial education

Upskilling in financial education should be a top priority for EU policymakers and the investment industry. Enrico Letta's report on the future of the single market recommends that financial education should be integrated in school curricula. CFA Institute also believes that financial education should begin early in life, starting in primary school.

Need for a regulatory initiative to create short learning sessions or documentation to ensure clients have all the necessary information before buying complex or advanced products or services. - Members of CFA Society Italy.

Courses on financial education should highlight the importance of personal and occupational pension products. - Members of CFA Society Ireland.

Retail investment strategy (RIS)

The 2023 European Commission "Retail Investment Strategy" proposes new rules to strengthen and align the requirements on the knowledge and competence of investment advisors. These are covered under the Markets in Financial Instruments Directive II (MiFID II) and Insurance Distribution Directive. The rules establish that compliance with minimum professional knowledge and competence requirements should be proven by obtaining a certificate. The commission also put forward an amendment to MiFID II, proposing a minimum requirement for ongoing professional training.

We would support the introduction of a clear certification requirement for all investment professionals offering advice and other financial services across the EU, as recommended by the 2020 CFA Institute response to the European Commission public consultation on the review of the MiFID II/Markets in Financial Instruments Regulation regulatory framework. This would address the current fragmentation caused by non-uniform national criteria, which poses an obstacle to the cross-border provision of financial services in the EU.

Views of CFA societies:

- Enhanced training standards and certification could lead to higher professional competency and better consumer protection. - Members of CFA Society Denmark.
- Mutual recognition of standards for competence and knowledge of investment professionals would promote the overall EU market. Increased public confidence could result in greater investment activity and market stability. However, implementing a standardized certification system and continuous professional development would incur significant costs and administrative efforts. - Members of CFA Society Greece.
- Consistent training requirements in Europe are needed. Specifically, a common minimum standard for competence and knowledge should encompass both technical competences and behavioral or ethical skills. And the CFA Program should waive all these requirements. - Members of CFA Society Switzerland.
- Regulators in Germany already require employers to retain certification of employee training. Introducing similar certification requirements in other member states would be beneficial. - Members of CFA Society Germany.
- A certification, continuous education, and adherence to a code of ethics should be mandatory for investment professionals. Differentiated requirements should be considered between fund managers, sales personnel, and compliance professionals. - Members of CFA Society France.

The Retail Investment Strategy introduces new rules easing restrictions on investors qualifying as professionals. The wealth threshold would be lowered from 500,000 euros to 250,000 euros (average of last three years). And an additional criterion relating to financial education or training would be included. Moreover, legal entities can qualify as professional investors if they meet certain criteria regarding balance sheet, net turnover, and own funds.

CFA Institute supports the introduction of a classifying criterion for knowledge of finance. It could be evaluated through a test and a minimum amount of investment portfolio.

Views of CFA societies:

- Investors should be qualified as professionals upon request. Regardless of the value of assets, experience, or formal education, they should be assessed through specific criteria, such as mandatory training or certification. - Members of CFA Society Luxembourg.
- Monitoring the fulfilment of the wealth criterion during the last three years would be challenging, as this would need to be constantly reviewed. Introducing of a criterion assessing whether professional advice is provided, or a professional mandate is required. - Members of CFA Society Italy.
- Client categorization is an important issue for retail investors. Many investors, particularly those most conservative, making few transactions per year, are excluded from many investment opportunities. This is noticed in fixed income products (which is best suited to them). - Members of CFA Society Greece.
- Classification of clients into professional clients across the EU is needed. - Members of CFA Society Finland.
- Reduction of requirements for investors to qualify as professional is required. Limit restrictions only to the wealth amount (e.g., EUR 100,000) and a client declaration acknowledging their understanding and assumption of the risks. - Members of CFA Society Romania.

To ensure that products deliver value for money for investors, the European Commission has put forward new rules on manufacturers to set out a "pricing process." This will identify and quantify all product costs and charges, and assess whether such costs and charges do not undermine the expected value to be brought by the investment product. To have an objective assessment, manufacturers and distributors should compare their product with a relevant benchmark, which could be developed by ESMA and the European Insurance and Occupational Pensions Authority (EIOPA).

Members of CFA societies in the EU are sceptical about the feasibility of this approach.

- Using a benchmark might not be the best method to ensure delivering value for money. Instead, call for regulators to harmonize the definition of undue costs. - Members of CFA Society Spain.
- Such increased requirements could impose an additional burden on smaller market institutions and limit competition. These rules could have a negative impact on investors by reducing their choice and access to market products. - Members of CFA Society Poland.
- The cheapest product is not always better and suitable for every client. The proposed approach focuses only on costs, and insufficiently on clients' needs and preferences. - Members of CFA Society Luxembourg.

4. Sustainability

CFA Institute position:

- The introduction and application of Sustainable Finance Disclosure Regulation before the Corporate Sustainability Reporting Directive has resulted in the publication of a large amount of Environmental, Social and Governance information, which is often confusing for retail investors.
- Companies, preparers, and investors should align their expectations to make the double materiality approach effective. Regulatory clarity on this approach and its methodology would be needed.
- Lack of reliable ESG data, relevant costs for collection of such data, and training of staff on ESG incorporation and sustainability represent significant challenges. For small companies, the implementation of the EU legislation on sustainable finance is more challenging.
- Regulators should clarify the language and definitions under articles 8 and 9 during the current review of the SFDR. This helps to improve the quality of ESG disclosures and reduce the perception of greenwashing for investors.
- Deviations from the "one-share, one vote" principle mainly benefit controlling shareholders, while undermining minority shareholder rights. Conversely, accountability and rights for minority shareholders should be reinforced.

Sustainable Finance Disclosure Regulation

In June 2024, CFA Institute released its new survey report on the ESG Regulatory Framework in the EU. It focuses on CFA Institute members' views on their perceived benefits and challenges concerning the EU legislation on sustainable finance. The report mainly looks at the implementation of the SFDR and the advantages and disadvantages of this regulation for asset managers and investors.

The survey results show that the lack of reliable ESG data, increasing costs for the collection of such information, and the need to have skilled personnel on ESG incorporation and sustainability thinking are the biggest challenges for asset managers in the implementation of the SFDR. Meanwhile, CFA Institute respondents in the EU stress that retail investors are often confused by the quantity and complexity of ESG information. And in light of the current legislative review of the SFDR, survey respondents highlight the need for clearer language and terminology in articles 8 and 9 of the SFDR to improve the quality of ESG disclosure and reduce the perception of greenwashing.

Views of CFA societies:

- SFDR is a burdensome regulation and is a "tick the box" exercise within the industry. The terminology under SFDR should be clarified, and data should be made available freely to allow asset managers to invest in the best interests of clients. And articles 6, 8, and 9 require a more coherent review. - Members of CFA Society France.
- Disclosure of ESG characteristics should be mandatory for all financial instruments. A new and more granular classification framework should be introduced as a labeling scheme. There is also a lack of specific quantitative thresholds for distinguishing among articles 6, 8, and 9 products. - Members of CFA Society Italy.
- Lack of minimum requirements for articles 8 and 9 and how they have been treated by the industry undermines the core tenet of the level playing field in the market. Insufficient ESG data remains a material challenge in some investment strategies. There are also concerns about the differences between the UK Sustainability Disclosure Requirements (SDR) and investment labels. Diverse rules for investment strategies housed in fund products domiciled in different jurisdictions will lead to clarity challenges for investors, who may be investing in both the UK and the EU articles 8 and 9 versions. - Members of CFA Society Ireland.
- EU regulators should balance quality and the usefulness of SFDR disclosure while limiting the burden on asset managers and issuers. Excessive burden may drive small asset managers out of the market, reducing product choices for investors. - Members of CFA Society Portugal.
- For companies, the SFDR represents a significant short-term milestone to achieve. - Members of CFA Society Poland.

- Establish formal product categories to better enable comparability between products. There are also issues of limited availability and inconsistency of data across data resources (particularly around scope 3 emissions) and absence of guidance on applicable methodologies and frameworks or approaches. Such matters raised concerns on the reliability and comparability of the disclosed ESG information. - Members of CFA Society Greece.

- Initial challenges in the implementation of the SFDR are complexity of rules and unfamiliarity with its concepts and requirements. However, these might become irrelevant over time as stakeholders become more accustomed to the regulation. Limited availability of qualitative ESG data represents the most major issue, as many companies may not disclose sufficient information about their sustainability practices. This makes it difficult for asset managers to accurately assess and classify their investments under the SFDR framework.

  Also, the SFDR poses a dramatic reporting burden on asset managers. Complying with these requirements can be resource-intensive, especially for small asset managers with limited resources. - Members of CFA Society Germany.

- Challenges for Swiss financial market participants are similar to those in the EU. These are data sourcing and collection, data management, understanding and applying the concepts, and clearly communicating with clients. Strengthening of the current regulatory framework by clarifying certain key concepts and a reliable and well-designed labeling scheme for sustainable financial products are needed. - Members of CFA Society Switzerland.

Corporate Sustainability Reporting Directive

From 2025, large listed companies and entities with over 500 employees will be required, for the first time, to declare their stand on sustainability for the financial year 2024. To report this, these organizations are mandated to use the new European Sustainability Reporting Standards (ESRS). It introduces the double materiality approach and requires companies to disclose the impact of their activities on society and the environment and how sustainability issues affect their businesses.

In 2021, CFA Institute released the results of a global survey focusing on the latest ESG matters. It reveals that a significant majority of global CFA Institute member respondents (68%) support the double materiality principle. However, the 2024 CFA Institute Survey Report on the ESG Regulatory Framework in the EU highlights mixed views. Just under one third of EU survey respondents (32%) view the CSRD approach and the adoption of the ESRS positively. Conversely, 18% are concerned about the potential negative effects on EU companies compared to non-EU companies, which are not subject to the ESRS. Another 13% of survey respondents are critical about the tight timeline of application of these standards. They argue that organizations will not be ready to report sustainability information based on the double materiality perspective.

Views of CFA societies:

- Double materiality perspective on sustainability reporting is necessary to address current challenges on climate change and other sustainability-related risks. This reporting would be of interest for various stakeholders, including potential investors, Non-Governmental Organizations (NGOs), consumers, and counterparts/customers.

  But there are concerns about the lack of comparability across different frameworks, especially concerning the International Sustainability Standards Board (ISSB). This may hinder the comparison of disclosures across peers from different jurisdictions. - Members of CFA Society Germany.

- Implementation of the CSRD, based on double materiality reporting, will be challenging due to insufficient data and the capacity to accurately evaluate data and impact. Lack of quality on social and environmental materiality reporting could lead many companies to still focus on only a single materiality approach. EU regulators should make it clear that double materiality is part of reporting entities' fiduciary duty, and not an option. - Members of CFA Society France.

- Double materiality requirement is needed. But complexity and the resources needed to adequately report sustainability information under this new approach could strain smaller entities, which will be required to comply starting in 2027. - Members of CFA Society Denmark.

- CSRD can ensure that investors and stakeholders can have access to the information that they need to evaluate the sustainability performance of companies. Regulators should further work towards the harmonization of the EU reporting framework and to require qualitative external assurance on sustainability information. - Members of CFA Society Luxembourg.

- There are challenges in the comparability and usefulness of EU ESG reporting. ESRS does not specify a clear and robust methodology for identifying financial materiality from impact materiality. Absence of sector or activity-based reporting standards leaves companies with no guidance on which sustainability issues they should report. - Members of CFA Society Italy.

- Companies and auditors may face ambiguity when evaluating the impact assessment of externalities that businesses produce. For example, they might be considered materially impactful by one company but not by another. The solution lies in the quantification of impact materiality through specific guidelines or by providing examples of negative financial consequences (e.g., fines) borne by companies in similar situations. - Members of CFA Society Finland.

- Higher level of reporting is required. But this raises challenges in assessing impact materiality and determining thresholds, given the non-financial nature of the impact. - Members of CFA Society Greece.

Multiple voting rights

In 2024, EU legislators agreed on the final text for a new legislative package aiming to make public capital markets in the EU more attractive for companies and more accessible for SMEs. The legislation includes measures promoting the use of multiple-vote share structures in companies seeking to be listed on an SME growth market.

In the "CFA Institute and BETTER FINANCE Report on the Review of the Listing Rules in the EU," CFA Institute explains that deviations from the "one-share, one-vote" principle would negatively impact investor protection. Multiple voting rights would prevent minority shareholders from participating in a company's critical decisions and would disproportionately benefit majority shareholders, who could easily control their business.

Views of CFA societies:

- Members of CFA Society Germany point out that multiple-vote share structures could lead to negative implications, such as the following:
    - Risk of power entrenchment and diminished accountability.
    - Concentration of voting power among select individuals.
    - Decreased shareholder democracy and compromised corporate governance effectiveness.
    - Potential abuse by founders and key stakeholders, prioritizing personal interests over shareholder value.
    - Possible conflicts of interest and legal challenges arising from such practices.
- Multiple voting rights shares is a wrong concept and could easily cause conflicts of interest and mismanagement. - Members of CFA Society France.
- There are benefits of multiple voting rights, such as stable ownership and enhanced long-term decision-making. But there are also concerns about governance and equal treatment of shareholders. - Members of CFA Society Denmark.
- Multiple voting rights are not a good corporate governance practice. EU directive on the matter could result in a greater level playing field on the multiple-vote share structure practices. - Members of CFA Society Italy.

Engagement with shareholders and stakeholders

The CFA Institute "Corporate Governance and ESG Disclosure in the EU" report highlights the poor level of engagement of shareholders and stakeholders with companies. In particular, minority shareholders are scarcely involved in a company's decisions. The report suggests that EU regulators should improve the rules on the exercise of shareholder rights and accountability for minority shareholders. EU companies should also be encouraged to consider stakeholders' interests and adopt long-term perspectives in their investment decisions.

However, increased efforts towards greater engagement are needed from both firms and shareholders. Firms need to set up a more effective and consistent dialogue with their investors to ensure that the needs of board directors, management, and shareholders are aligned. Likewise, investors also should be more proactive in their engagement efforts with companies to actively influence their business decisions.

Shareholders should also increasingly exercise their rights, such as appointing a company's auditors and approving their remuneration. Recently, the International Forum of Independent Audit Regulators released a survey showing that a relevant number of listed company audits in 51 jurisdictions had at least one "inspection finding" or audit deficiency. Greater level of shareholder engagement could help improve audit quality, including the level of assurance of sustainability information.

Members of CFA societies also call for more shareholder and stakeholder engagement.

- Engagement by investors with companies on ESG issues should be monitored through the disclosure made by companies. - Members of CFA Society Italy.
- More coordinated engagement between asset managers using a single voice to drive positive change in underlying companies is needed. - Members of CFA Society Ireland.
- Shareholders and stakeholders typically take a collective approach when engaging with companies on common issues. Hence, collective engagement among companies facing the same issue would be the best approach. This would also promote best practices and leading industry standards. - Members of CFA Society Greece.
- Efficient engagement can be built through greater interaction and transparency from companies with their shareholders and stakeholders that share similar concerns. - Members of CFA Society Germany.

Green bonds

Members of CFA societies support the introduction of an EU standard for green bonds but also have diverse views.

- Development of an EU green bond standard is welcomed. It would ensure transparency, credibility, and comparability. It is also crucial for directing more capital towards sustainable projects and contributing to the EU's green transition. - Members of CFA Society Denmark.
- High standards in EU green bond legislation would foster investor trust but, at the same time, also discourage widespread adoption by potential issuers. Setting up private sector initiatives or working groups could better support capacity building and provide accessible tools. Development of standards for other products, such as green loans and mortgages could also lead to benefits. - Members of CFA Society Germany.
- EU green bond standard represents a breakthrough. It is expected to broaden the investor base, including individual investors. However, the restriction on the allocation of proceeds poses a major hindrance for non-financial issuers of green bonds. Sustainability-Linked Bonds (SLBs), such as instruments, need additional regulatory guidance on transition planning to bolster market trust. - Members of CFA Society Italy.
- Introduction of EU green bond standard could have a major impact on the EU green bond market. Existing green bonds, which do not have an EU label, may lose appeal due to the inherent risk of greenwashing. - Members of CFA Society Finland.
- The green bond market might shrink if companies were to align their green bond frameworks and issuances with the EU Taxonomy. - Members of CFA Society Finland.
- Transition plans should be encouraged or made mandatory. There is also a need for strong documentation standards (including disclosure requirements) for SLBs to ensure that the proceeds of such bonds could credibly promote decarbonization activities. - Members of CFA Society Greece.
- Regulators need to clarify the definition of green loans and mortgages. The European Supervisory Authorities should explain the definition of green loans, potentially in a common framework with the Energy Performance of Buildings Directive. - Members of CFA Society Romania.

5. Pensions

CFA Institute position:

- Pension reforms are a matter of national competence. Member states' legislators should tackle the current challenges of their national pension systems and encourage the adoption of complementary private pension plans, which could contribute to further development of capital markets.
- Uneven tax regimes represent a significant drag to the success of the Pan-European Personal Pension Product. Harmonization of tax regimes across EU member states could enhance the portability of pension products in the EU.

Pan-European Personal Pension Product (PEPP)

In its 2019 Blueprint for the next five-year legislative period, CFA Institute strongly supported the adoption of PEPP as an important instrument to further develop EU capital markets. However, at that time, CFA Institute remarked that differing tax regimes could be a significant barrier for the portability of this product across EU countries.

Today, PEPP is not having much success as it is offered by few providers in the EU. Members from CFA societies have the following views on the slow take-up of this product:

- PEPP could encourage individuals to opt for Defined Contribution (DC) pension schemes, especially if they value flexibility and portability. But the extent to which PEPP will lead to a consistent shift from Defined Benefit (DB) to DC schemes will depend on various factors, including regulatory frameworks, consumer preferences, and the effectiveness of marketing and education campaigns promoting the benefits of the PEPP.

  Success of the PEPP lies in its ability to offer cost-effective pension solutions. While the 1% total expense cap on the basic PEPP helps promote affordability and transparency, it also introduces challenges. The challenges are the inclusion of certain types of investments, such as private equity, which may have higher management costs.

  Value-Added Tax (VAT) treatment of PEPP services poses challenges due to the diverse nature of providers involved, including banks, insurance firms, investment firms, and Institutions for Occupational Retirement Provision (IORP). Each subject varies as per VAT regulations. To address these challenges, it would be essential to harmonize the VAT framework across PEPP providers. - Members of CFA Society Cyprus.

- It won't be easy for the PEPP to drive the transition from (DB) to DC pension schemes. PEPP serves a small part of the population that often changes countries of residency. In France, PEPP does not imply a fiscal incentive, which is the main reason for product adoption. Moreover, pension products should be less complex and easier to understand. PEPP is not particularly simple and is costly (1% makes a huge difference over the long term). - Members of CFA Society France.
- The society strongly supports the PEPP and the general introduction of European pension products. However, the differences in tax systems across EU member states represent big challenges. This could hinder efforts to channel savings into the PEPP. - Members of CFA Society France.
- Diverse regulatory environments and national pension systems across EU member states are contributing to the inequal implementation of the PEPP. Such fragmentation could create barriers to cross-border mobility and hinder the development of a truly pan-European pension market.

  Integrating ESG considerations into PEPP products while ensuring financial returns and regulatory compliance can be complex. Differences in tax treatment, regulatory requirements, and cultural preferences across EU member states can be an obstacle to the portability of PEPP. It could also limit its effectiveness as a pan-European pension instrument. - Members of CFA Society Croatia.

- The society favors PEPP. But the different tax systems across member states may constitute a problem for encouraging investors to save on those products. - Members of CFA Society Luxembourg.
- The disappointing uptake of the PEPP is mainly due to complexity, varying tax treatments in different EU countries, and potential cost implications for consumers. A review of the current regulatory framework to ensure that PEPP could meet the intended objectives is needed. - Members of CFA Society Denmark.
- PEPP is a flawed product. As long as individual countries have their own rules for pensions, implementing the PEPP effectively would be a real challenge. While the PEPP may be able to operate outside of the existing pensions system, this approach would result in competing post-retirement systems across Europe. - Members of CFA Society Ireland.
- PEPP's target audience should be broadened (and not only target mobile workers and entrepreneurs). The scarce success of this product could be due to the absence of national tax benefits and uncertainties due to the overhaul of existing pension systems. Tax incentives during the accumulation stage appear to be crucial for sparking interest in the product. But they might present political challenges when being introduced. - Members of CFA Society Finland.

- Focus on the issues of taxation and portability is needed. Member states are encouraged to give the most favorable tax treatment for PEPPs. Such an approach does not ensure a uniform and consistent treatment across EU countries. Comparability between PEPPs and Packaged Retail and Insurance-based Investment Products (PRIIPs) regarding expenses, costs, and risk classes should be provided. - Members of CFA Society Greece.
- Due to the demographic trends, all pension schemes will inevitably shift to DC models. Key aspects for PEPP are asset allocation, professionalism and independence of the investment decision markers, costs per beneficiary, costs per Assets Under Management, ethical principles (serving only beneficiaries), and actuarial assumptions. - Members of CFA Society Switzerland.

Pension reforms

CFA Institute is interested in how pension reforms contribute to the development of capital and global securities markets. Every year, in partnership with Mercer, we release the Global Pension Index to compare numerous retirement systems worldwide. The index also assesses the system's adequacy, sustainability, and integrity.

The Mercer CFA Institute Global Pension Index 2023 looked at 47 retirement income systems, representing 64% of the world population. The Netherlands, Iceland, Denmark, and Israel have been found to have the best systems, offering good benefits, sustainability, and integrity.

The report suggests the following reforms to improve the current retirement income systems:

- Increasing coverage of employees (including nonstandard workers) and the self-employed in the private pension system.
- Raising the state pension age or retirement age to align with the growing life expectancy, both now and into the future.
- Promoting higher labor force participation at older ages. This will increase the savings available for retirement and limit the continuing increase in the length of retirement.
- Encouraging higher levels of private saving, both within and beyond the pension system.
- Introducing measures to reduce the gender pension gap and address disparities for minority groups in retirement income systems.
- Reducing the leakage from the retirement savings system prior to retirement. This will ensure that the funds saved, often with associated taxation support, are used for retirement income.
- Improving the governance of private pension plans and introducing greater transparency to improve the confidence of plan members.

Three CFA societies recently published relevant studies on pensions.

- In 2023, CFA Society Germany published the "Position Paper on the Reform of the State-Subsidized Pension Provisions in Germany." It provides a thorough analysis of potential pension reforms to address the main issues in both occupational and private pension provisions in Germany.

  The paper offers the following recommendations for pension reforms:

  1. Integration of both occupational and subsidized private pension plans.
  2. Introduction of separate models for both standardized retirement provision and self-directed retirement provision.
  3. Expansion of the group of eligible pensioners to all sections of the population.
  4. Employers should automatically register their employees for the occupational pension when they join the company and pay part of their salary as a contribution unless the employee rejects this option.
  5. Flexibility of subsidy and tax treatment.
  6. Increase in pensions through abolition of guarantees in the accumulation phase.
  7. Additional increase in pensions through longevity coverage without guarantees in the payout phase.

- In 2024, CFA Society Netherlands released the study "Development of a Blueprint to Ease the Transition under the New Pension Fund Reform for Alternative Investments." The report looks at the major pension reforms in the Netherlands, with a transition from DB to DC models.

  The paper underlines that, with the new pension system, there will be a larger focus on the connection between the individual risk preferences of participants and the total investment allocation of the pension fund. Moreover, new reforms are expected to lead to a move to a higher risk and return profile where both are appropriate. Here, risk and return metrics and methods are recommended to be confirmed again during the preparation and implementation period.

- In 2024, CFA Society Switzerland published the "Position Paper on Investment Governance at Swiss Pension Funds." It provides a best practice guide to help pension funds of all sizes in formulating their own bespoke investment governance strategies to ensure their resilience, sustainability, and ability to fulfil their promises to beneficiaries. The paper issues recommendations on investment governance, addressing both roles and responsibilities as well as management of potential conflicts of interest.

  Enhanced investment governance leads to several benefits: lower risk of suboptimal strategic investment decision-making, reduced execution risk, and a more effective use of limited skills, resources, and time. These improvements may ultimately lead to better investment results.

Views of CFA societies:

- A holistic approach to retirement in which attention is paid to provision of a stable income after retirement, access to good health care, and participation in society is needed. The long term nature of collective pension investments allows for diversification to private investments. Pension investments contribute to the further development of capital markets.

  Elements of good pension system design include amongst others the inclusion of pension in collective labor agreements, the use of automatic enrollment mechanisms, adequate tax incentives for pensions and the use of national pension tracking systems to help employees navigate their pensions. - Members of CFA Society Netherlands.

- Pension systems should be designed to account for long-term sustainability, demographic shifts, and economic conditions. Diversifying the sources of retirement funding is paramount for pension arrangements. This includes the growth of asset-backed pension arrangements. A trend observed in most Organization for Economic Co-operation and Development (OECD) member countries over the past two decades.

  Innovative solutions are needed to strike a balance between sustainability, adequacy, and fairness in pension provisions. Policymakers must engage in proactive dialogue to implement effective reforms that secure the well-being of both current and future retirees. - Members of CFA Society Spain.

- Polish capital market should rely on the development of the pension system, focusing and automating three key areas: enrollment, the process of allocating financial instruments, and collecting contributions. - Members of CFA Society Poland.
- EU-wide action is needed to improve financial literacy and ensure that beneficiaries of pillar II DC and pillar III pensions duly incorporate risk and return considerations in their decisions. In Portugal, excessive reliance on the public pension system has reduced incentives to save and invest. Assisting future beneficiaries in making informed investment decisions for pension planning would be essential. - Members of CFA Society Portugal.
- Regulators should prioritize pension reforms in their political agenda. Potential reforms are needed to increase women's employment participation rate, enhance the multi-pillar pension systems, promote financial literacy and education, and advance digitalization in pensions and related services. - Members of CFA Society Greece.
- EU regulators could increasingly focus on pension reforms. Given the demographic trends, EU legislation should promote the adoption of private pension systems (pillars II and III), as pay-as-you-go pension systems can face serious sustainability issues.

  Transition to funded pension systems to increase the long-term sustainability of pensions and avoid placing an excessive burden on future generations is also required. - Members of CFA Society Romania.

Annex of CFA Institute Blueprint: National Blueprints from CFA Societies in the EU and Switzerland

CFA Society Germany Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Finfluencers	Gamification	Financial education	SFDR Reporting Engagement Green Bonds	Audit ESG Ratings/ Risks Behavioral Science
Priority II	Inducements AI and Sustainability Impact	MiCA	AI and Ethics	Multiple Voting Rights Shares	PEPP Pension Reforms
Priority III	CMU Clearing Liquidity Fund Ownership	AI Framework Cloud and Data Security	Value for Money Mis-selling		

Abstract/Summary

This blueprint outlines the German Advocacy Committee's insights. It highlights the complexity and importance of regulations in resilient, sustainable, and inclusive financial markets within the EU. Our responses underscore key factors in financial regulation and market dynamics. They show our commitment to promote financial literacy, regulatory effectiveness, and market integrity within the EU.

1. Resiliency of Capital Markets

- Maintaining inducements to financial advisors to ensure product diversity and prevent increased costs for investors.
- Advocating for harmonization and fiscal coordination to achieve a Capital Markets Union.
- Urging diversification of Central Counterparties dependency post-Brexit and addressing liquidity challenges in managing funds.
- Stressing the need for reliable data and robust regulations to integrate AI and sustainability into asset management.

2. fintech

- Promoting regulatory clarity and streamlined compliance processes to support AI integration in asset management.
- Highlighting the need for effective regulation to prevent harmful practices in gamification of investing.
- Encouraging innovation in cloud usage while ensuring data security and compliance with EU regulations.

3. Business Conduct

- Advocating for standardized MiFID II certification for investment professionals across EU.
- Highlighting the need for establishing ethical guidelines and enhancing transparency to address ethical concerns surrounding AI in finance.

4. Sustainability

- Identifying challenges in SFDR implementation.
- Emphasizing the importance of education and improving data quality.
- Recognizing the significance of the double materiality and raising concerns about its complexity and greenwashing risks.
- Cautioning against the concentration of voting power and underscoring the need for efficient stakeholder engagement.
- Supporting the set-up of high standards in the EU Green Bond Standard while exploring additional benchmarks for various financial products.

5. Pensions

- Providing a link to Germany's position paper on pensions to commit further engagement in this area.

Resiliency of Capital Markets

Inducements

We understand that a comprehensive prohibition on inducements paid to financial advisors is not the optimal solution.

It impacts the diversity of products available to clients and could prompt distributors to scale back or even cease offering third-party products. And instead of ameliorating the situation, this approach may increase costs for private investors.

Cost disclosure standards

We disagree that regulators should focus solely on improving standards for cost disclosures and performance information. Private investors often do not read or understand such disclosures. If implemented, they should be simplified to a very basic and easy-to-understand level.

EU capital markets

- Strategies to achieve a (CMU) amidst local fragmented markets.
- Advocating harmonization on an EU level while integrating national specificities in existing EU legislation.
- Conducting reviews of regulations such as reporting requirements to align with national needs. For example, *AnaCredit vs. German "Gross- und Millionen-Kreditmeldewesen*."
- Addressing the majority of Member States' requirements within the European framework to reduce national legislation.

To recognize the challenges posed by the lack of fiscal coordination and harmonization, we suggest:

- Advancing both the CMU and the Fiscal Market Union as complementary. This will foster economic integration and stability within the EU.
- Highlighting the need to address fiscal coordination to enhance the effectiveness and stability of integrated capital markets within the region.

CFA Society Germany advocates for a comprehensive approach to achieve deeper economic integration within the EU. But agreeing to public support for a Fiscal Market Union may vary. This was evident by recent Member State elections.

Clearing

EU should reduce reliance on UK-based CCPs. This will prevent negative consequences arising from monopolies and enhance financial stability through multiple CCPs.

Diversifying CCP dependency mitigates risks for clients and also promotes overall financial stability. Thus benefiting both the UK and international capital markets.

Continued efforts to enhance the central clearing landscape are integral to the CMU's objectives, as outlined by the European Commission (Capital Markets Union - European Commission), with further regulatory improvements outlined in EMIR (European Market Infrastructure Regulation).

Views on concentration of ownership in funds

Addresses the effect of ownership of funds in listed companies. Particularly those held by mutual funds or Exchange-Traded Funds (ETF) due to inclusion in an index replicated by the fund.

Major listed companies often have mutual funds or ETFs as shareholders, raising questions about the behavior of major funds such as Blackrock, Vanguard, or Fidelity:

- Are they active shareholders?
- How do they respond to major corporate events like Merger and Acquisition transactions?
- What is their voting behavior?
- Do they abstain from major corporate decisions?

These questions impact corporate governance. For example, it may be harder for a potential acquirer to buy up an index company if the invested fund doesn't tender its shares.

Understanding the behavior of major funds helps identify the benefits and risks of ever-growing passive index funds.

Views on the impact of AI and sustainability on asset management

On Sustainability:

SFDR requirements for disclosures on products and company processes are viewed as a positive step.

Sustainability-related risks should be integrated into asset management fiduciary duties. They should align with ESG considerations in German banking risk management ('MaRisk', see here for German version: BaFin - Aktuelles - Rundschreiben 05/2023 (BA) - Mindestanforderungen an das).

There is a consensus in Germany and Europe that sustainability is not just ideological but presents factual risks with potential economic impacts.

The financial sector is actively addressing sustainability through strategy-setting, risk management, capacity building, and client support. All these are bolstered by regulation and supervision.

Active management may have an advantage over passive management due to its ability to analyze strategies and question reported data.

Passive investing relies heavily on reliable data, but doubts exist about the reliability of ESG data.

US climate-related regulation is seen as more realistic than the EU approach. Concerns are raised about the reliability of ESG data and the EU's approach compared to US climate-related regulation.

On AI:

Companies using AI should retain responsibility for the results and client information safety.

Like algo-trading, companies need measures to ensure knowledge, responsibility towards clients, and compliance auditing.

Emphasizing the need for companies using AI to remain responsible for client outcomes and data security.

Advocating for regulatory measures to ensure companies remain knowledgeable and accountable to clients, including compliance auditing.

Finfluencers

- Respondents say that regulating finfluencers is necessary due to their significant role and wide distribution.
- Proposed regulatory measures include enhancing the transparency of the educational background, expertise, and personal views of finfluencers.
- Regulations akin to those governing tax advisory services that mandate specific qualifications and duties could also be implemented.

- Key areas for regulations include disclosure of conflicts of interest and inducements received from third parties. This is similar to the regulations found in the MiFID.
- Emphasizing the inherent uncertainty in predicting future investment returns is also a suggestion.
- Consumer protection can be bolstered by having information about finfluencers' expertise and knowledge.
- Necessary regulations of social media channels used by finfluencers to promote financial products and influence investment decisions.
- Any regulatory measures introduced should carefully balance consumer protection, freedom of speech, innovation, and the practical challenges of enforcement in the digital realm.

Fintech

AI

The new legislation on AI regulation may encounter challenges similar to current ESG regulations.

- Compliance and data management costs may disadvantage smaller companies.
- Vague provisions could lead to varying interpretations and applications across member states.
- EU asset management companies' competitiveness may be impacted compared to global entities.
- There's hope that, like GDPR, the EU can set standards in AI regulation.
- Concerns such as explainability, data governance, system safety, and accountability for all asset management players.

Cloud and data security

No concerns as long as the service providers are EU-based companies, and the servers comply with EU regulations by being located within the EU.

Gamification

A valuable tool to increase private investors' wealth and foster their interest in saving and investing.

- Evaluation of effective gamification tactics and potential harm to customers is necessary based on empirical evidence.

- Envisioning a short research paper listing potential tactics and presenting empirical results on effectiveness.
- Conducting surveys targeting private individuals or charter holders for insights.

Regulation is essential to encourage investors in excessive trading. Regulating gamification practices in investing is no longer a matter of "if" but "how" it should be regulated.

- Recent developments, such as the Robinhood *v.* Massachusetts Secretary of State Securities Division case, highlight the need for regulation.
- Gamification itself is not inherently negative. But certain features may inadvertently encourage detrimental investing behaviors.
- Regulation can address concerns by targeting specific features that may lead to harmful investing behavior. It ensures responsible and ethical use of gamification.
- Regulation should mitigate potential risks and harness the positive aspects of gamification for educating and engaging investors.
- An evidence-based approach to regulation is crucial. It should inform the impact of gamification practices on investor behavior and market dynamics.
- Empirical evidence may help to design effective, targeted, and proportionate regulations.

General Note: Society's working group specializing in behavioral science in the financial industry has conducted comprehensive research in this area. This includes surveys, papers, and extensive research efforts.

Business conduct

MiFID certification

EU should focus more on the certification of training for investment professionals.

In Germany, regulatory oversight involves employers retaining certification of training.

Encouraging EU member states to adopt similar certification requirements would be beneficial.

Recognition of organizations like CFA societies by regulatory bodies such as BaFin for training certification could aid the provision of such training programs.

AI and ethics

Various ethical concerns from AI in the financial sector include:

- Bias
- Lack of transparency and accountability.
- Security issues.
- Potential for systemic risk due to algorithmic/model behavior convergence.

To address these concerns:

- Acknowledge the inevitability of issues and establish an Ethical Guideline or Mission Statement.
- Regulators should stay abreast of developments to ensure correct data protection/management, fairness, privacy, and consumer protection.
- Enhance transparency and explainability of AI models with regular monitoring and auditing.

General Note: Susan Spinner (CEO of CFA Society Germany) gives regular lectures and trainings on topics such as capital market ethics and financial analysis. She is also an adjunct faculty member of the award-winning master-in-finance class "Ethics in Finance" at the Goethe Business School of the University of Frankfurt.

Mis-selling

There is need for:

- Stricter disclosure requirements for financial product information to ensure customers fully understand risks and costs.
- Regular monitoring and auditing of financial service providers to ensure compliance with regulations and ethical standards.
- Strengthening education and qualification requirements for financial advisors.

- Establishing complaint mechanisms and dispute resolution procedures for affected customers.
- Promotion of financial literacy and consumer education.

Financial education

Educating investors should be the regulators' main focus before introducing new regulatory measures. But this is challenging to implement in practice.

Making financial education mandatory in school curriculum.

Collaboration between both the public and private sectors to conduct events such as workshops and utilize potential platforms as open source.

Introducing relevant content in math or economics lessons at school, inspired by Austria's approach to financial education.

General Note: CFA Society Germany has been actively engaged for years through a financial literacy working group and participated in studies conducted by the institute on financial influencers. As a result, expert interviews were conducted at the German stock exchange for German television. The society also conducted extensive research on the topic of stakeholder capitalism in the German market in 2022. Various EU consultations have also been addressed within this domain.

Sustainability

SFDR

Main challenges:

- **Complexity and lack of familiarity with concepts and requirements:** Initial implementation hurdles may arise due to the complexity of the SFDR and unfamiliarity with its concepts and requirements. However, as stakeholders become more accustomed to the regulations, these challenges are expected to diminish over time.
- **Data availability and quality:** A significant challenge lies in the availability and quality of ESG data. Many companies may not disclose sufficient information about their sustainability practices. This makes it difficult for asset managers to accurately assess and classify their investments under the SFDR framework. Improving data availability and quality is essential for effective implementation.
- **Compliance and reporting burden:** Compliance with the SFDR imposes significant reporting and disclosure requirements on asset managers. Ensuring compliance with these obligations can be resource-intensive and may be challenging for smaller asset managers with limited resources. Simplifying reporting requirements and providing support for compliance efforts could lift this burden.
- **Education and awareness:** Many investors, including retail investors and professionals, may lack awareness and understanding of sustainable finance and the implications of the SFDR. Educating investors about the importance of sustainability and the implications of the SFDR can promote greater transparency and accountability in the marketplace. Initiatives such as workshops, training programs, and educational campaigns could enhance awareness and understanding among stakeholders.

Concerns:

- **Overcomplication:** The complexity of SFDR regulations may deter advisors, private clients, and wealth managers from engaging in sustainable investments. Simplifying and clarifying the rules could encourage broader participation and improve market outcomes.
- **Uncertainties:** Ongoing political uncertainty and potential regulatory changes may add complexity to the implementation of SFDR in local markets. Clear and consistent regulatory guidance is essential to mitigate uncertainty and facilitate compliance efforts among market participants.

- **Disengagement:** The compliance burden associated with SFDR regulations may drive asset managers to opt out of sustainable investments altogether. This outcome would undermine the objectives of SFDR and hinder progress toward sustainable finance goals. Efforts to streamline compliance processes and provide support for implementation could help mitigate this risk.

Sustainability reporting

Views on the double materiality concept:

- **Necessity:** The double materiality concept is deemed necessary to address current challenges stemming from climate change and sustainability-related risks.
- **Alignment with the European Green Deal:** It forms part of the broader framework surrounding the European Green Deal, complementing other regulations and information requirements.
- **Crucial Perspective for Stakeholders:** The concept holds significance for various stakeholders, including potential investors, NGOs, consumers, and counterparts / customers. It is relevant in relation to Corporate Sustainability Due Diligence Directive (CSDDD) and other national legislation mandating value chain due diligence.
- **Interrelation with Corporate Governance:** It is considered integral to good governance practices and is aligned with concepts such as the "honorable merchant."
- **Concerns about Comparability:** Lack of comparability across different frameworks, especially concerning the ISSB, may hinder the comparison of disclosures across peers from different jurisdictions.

Concerns with double materiality:

- **Complexity and Subjectivity of Assessing Materiality:** Leads to reporting overload and challenges in decision-making.
- **Risk of Greenwashing:** There is a risk of greenwashing and misrepresentation as companies navigate the balance between financial and non-financial material issues. This highlights the need for robust reporting standards and independent assurance to ensure the reliability of sustainability disclosures. Despite these concerns, there is advocacy for the concept.

Multiple voting rights shares

Introduction of more flexible measures concerns:

- Risk of power entrenchment and diminished accountability.
- Concentration of voting power among select individuals.
- Decreased shareholder democracy and compromised corporate governance effectiveness.
- Potential abuse by founders and key stakeholders, such as prioritizing personal interests over shareholder value.
- Possible conflicts of interest and legal challenges arising from such practices.

Engagement with shareholders and stakeholders

Strategies for building efficient engagement:

- Fostering interaction and transparency with shareholders and stakeholders.
- Engaging with groups of stakeholders who share similar topics for more effective communication.

Debtholder influence considerations:

- No clear necessity in granting more legal rights to bondholders for decision-making influence.
- Investment term variability and repayment priority in case of insolvency.

Green bonds

Perceptions:

- High standards in EU green bond regulations build trust but discourage widespread adoption by potential issuers.
- Establishing private sector initiatives or working groups could support capacity building and provide accessible tools.
- Maintaining high standards to support the transition and market trust.
- Exploring additional standards for different products, such as green loans and mortgages, could be beneficial.

General Note: CFA Society Germany has various working groups that conduct research in the field of sustainability, particularly in ESG ratings and ESG risk assessment. The society also hosts regular webinars and events in this area.

Pensions

General Note: CFA Society Germany has been advocating for reform proposals regarding private retirement provision in the German market for years. Two papers have been published on this matter, which have gained political attention. Furthermore, the paper has been translated into English (CFA Institute). Link: https://www.cfa-germany.de/media/fd/17/8b/1712591613/POSITION_PAPER_EN.pdf

CFA Institute extends its deepest gratitude to the Advocacy Committee of CFA Society Germany. Your invaluable insights and expertise have been instrumental in shaping this EU blueprint.

CFA Society France Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Financial Education Retail Investor Strategy	MiCA AI	AI and Ethics	SFDR and CSRD harmonization Fiduciary duty Double materiality	
Priority II	Liquidity Mis-selling Finfluencers	Gamification	Value for Money	Green bonds ESG ratings	DB to DC
Priority III	Passive investments	Cloud and data security		Multiple voting rights	

Resiliency of Capital Markets

Investor protection

All measures to improve cost transparency are welcome. Much has already been done, in particular with PRIIPS. Investors should not be overloaded with information. And wherever possible, present consistent information for different investment products. Annual information is sufficient, unless requested by the client on a shorter basis.

Indirect costs should be clarified. Only charges billed, directly or indirectly, should be mentioned. Financial communication must be closely monitored. This is followed by regulated players, who know and respect the regulation. But ambiguous communications from marginal players should be prohibited. Investment objectives and recommended investment horizons must be emphasized.

In line with financial communication, greenwashing needs more attention. The recent publications (on the definition of greenwashing by ESMA and on the naming of funds) are welcome, but the devil will lie in implementation.

Inducements

Retrocessions are today a necessary evil. Eliminating them should be a medium-term objective, to avoid any suspicion of conflicts of interest. Move towards a smooth transition where the customer can be billed directly for a consultancy service that is actually provided.

The medium-term goal should be clear to ban inducements. This will give financial advisors the ability to propose many investment products to their clients. The status of “independent” financial advisor should be clarified and strengthened.

Steps (starting with real transparency) that could lead to a smooth transition are welcome. Financial education is key.

Cross-border provision of financial services and products

CFA Society France advocates for increased harmonization across the EU. And acknowledged cultural differences and practices (and diverse local distribution practices). A bottom-up approach could prove efficient. New financial products based on national mindset or necessity (PERCO in France) should be designed to easily be transformed into a pan-European product sooner or later.

Liquidity issues

Liquidity is always a risk while investing. It could also be true with direct investing. Liquidity is one of the counterparties of performance, especially because liquidity issues happen during financial crises.

The society encourages a liquidity ranking. It is based on a quantitative analysis. This gives the investor an idea of the asset manager's anticipation of asset liquidity and the ability of investors to exit. In the image of the Summary Risk Indicator, the liquidity indicator could range from 1 (high liquidity) to 7 (very low liquidity).

Concentration of ownership in funds

Concentration is linked to liquidity and increases the risk of large redemption. It should be managed by investors and asset managers. Rules exist for Undertakings for the Collective Investment in Transferable Securities funds.

Big funds should be monitored more closely by regulators and asset owners. Experienced investors should remember the Long-Term Capital Management crisis, and for others what has been documented as the "Quantmare" in August 2007.

Impact of AI and sustainability on asset management

AI could be viewed from two viewpoints.

As a new aspect (stronger and more sophisticated of systematic or quantitative) of investing with the danger of vicious circle and uncontrolled trades. That is the responsibility of the asset managers.

Second, as a new way of global thinking and intelligence. The financial sector should treat it with the same seriousness and transparency that is expected in fields such as medicine or media.

Sustainability is a broad issue which should be treated separately. On the topic of liquidity: the "green industry" law favors investment in private yet "green" markets. Individual investors may misunderstand the liquidity risk. For all investments through "assurance vie," the most popular tax wrapper in France, the insurer will bear the liquidity risk. This comes with a legal obligation to offer an exit within 60 days.

Finfluencers

Finfluencers

Finfluencers should be regulated. No one should be authorized to do hidden marketing and gain indirect benefits without transparency. A financial advisor could be banned by the regulator for a more or less long period if found guilty of misconduct. The same regulation should apply to finfluencers.

Fintech

AI

AI will dominate every industry, including asset management. Its hazards on financial markets should be treated on a global basis.

MiCA

Cryptoassets are here to stay. They should be regulated as any financial instruments. But its key functions, such as custody, trading, and management, should be encouraged and facilitated.

Cloud and data security

Data security is an issue for the financial sector. But not more and not less than other key sectors. Digital Operational Resilience Act regulation is a viable solution for this issue.

Gamification

Gamification is a marketing evolution. Respecting key considerations, such as education, transparency, and objectives, could attract new investors.

Encouraging fintech for more efficiency

In fintech, newcomers should be encouraged to enter the financial sector. Oligopolistic practices still persist, leading to cost inefficiencies that burden the final investors.

Business conduct

Mis-selling and financial education

Mis-selling and financial education are two sides of the same coin.

Many financial strategies could be proposed to retail investors if well documented and explained by the distributor, no matter what the channel is.

The first step is to ensure that the distributor understands what they are selling or advising. The global level of the profession should be elevated. No one consults a physician who does not have the correct diploma.

Financial education is a real challenge. Many actors are already doing well in this area. Content is available, but the challenge lies in its distribution to non-professionals and the general public. Key concepts are sometimes badly explained. The first step is to increase the financial literacy of media and influencers.

Retail investment strategy

Certification, continuous education, and a code of ethics should be mandatory for investment professionals. Distinction should be done between fund managers, salespersons, and compliance professionals. Ethical concerns surrounding AI arise due to a lack of transparency and control.

Value for money is a legitimate concept. Assessing the real value of financial products is a real challenge. The cost is often seen only at the producer level. For example, in France, the only current impact is to ask for reducing management fees of mutual funds. This is according to some criteria which could be wrong (and provided by private data companies). The question of value should be treated at all levels of financial distribution, and especially in the insurance sector. As long as competition and transferability of savings are not permitted, no real "value for money" could be recognized. All the chains of supposed value added should be analyzed.

Sustainability

SFDR

SFDR is a heavy regulation and could be viewed as a "tick the box" process, which could be opposite to its ambitious objective. The categories of articles 6, 8, and 9 have been treated by the market as labels, and they are failing at that. The new naming regulations will help, but these articles should be rewritten in a more coherent way.

SFDR should be clarified. Data should be made available freely to allow the asset managers to invest in the interests of clients, as per investment objectives and processes.

CSRD will make data increasingly available, but it should be made available for free as it represents a common good (or a "commons," as theorized by E. Ostrom and others).

Another concern is the lack of coherence with other regulations, such as Taxonomy. Texts and concepts should be clarified. Unifying of definitions (e.g., PAI vs. DNSH) is needed to ease the adoption and to ensure the transition is well-financed.

ESG ratings

ESG ratings and ESG raters should be regulated at a higher level. This will improve transparency regarding methodology and source of information. Regulation should ensure it limits conflict of interests in ESG ratings.

Sustainability reporting

The concept of double materiality is key. But its implementation is restrained by the lack of data and the capacity to correctly evaluate figures and impact. This lack of precision on "social and environmental" materiality leads many players to still focus on simple materiality. However, precision on that second materiality is impossible at this stage. More needs to be done to take it into account. Many frameworks are available to integrate most topics (climate, biodiversity, etc.), and qualitative analysis is always possible, even if quantitative analysis shows limits. Regulators should make it clear that double materiality is now part of one's fiduciary duty and is not an option.

Sustainability transformation is systemic in nature. EU companies should consider the benefit of all stakeholders, and in turn it will benefit shareholders. The CSRD should help on this aspect. Insistence by regulators is needed to ensure the right processes are in place to identify and represent stakeholders.

Engagement with shareholders and stakeholders

Debtholders need to engage. And they are doing it already. On sustainability issues, they can influence at every refinancing window and represent a strong transformation force.

Green bonds

A green bond standard would help in giving a level playing field with harmonized definitions. However, building a common standard always runs the risk of reaching diluted standards, which would be of little help. Clear and stringent standards are necessary. There could be more than one step of "stringency." But complexity similar to articles 6, 8, and 9 of SFDR should be avoided.

Multiple voting rights

A wrong concept could lead easily to conflict of interest and mismanagement.

Pensions

Pension reforms and Pension PEPP

Uncertainty on whether PEPP can bring a consistent shift from DB to DC schemes. The main issue with PEPP is that it serves a small part of the population. The one that often changes countries of residency. In France, PEPP does not imply a fiscal incentive, which is the main reason for product adoption. Also, pension products should be made simple and easy to understand, and PEPP is complex and costly. One percent makes a huge difference over the long term.

PEPP national products should be transformed into European products and not the opposite. A shift from DB to DC is viewed as a goal to build more resilient pension systems and stronger capital markets. DB should complement DC.

CFA Society Italy Blueprint for the Next Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Finfluencers Inducements	AI Framework Digital Euro	Financial Education Value for Money Mis-selling (particularly in private markets)	SFDR Green Bonds (including Sustainability-Linked Bonds and Transition Planning) Multiple Voting Rights Shares	
Priority II	Securitization	Cloud and data security Gamification	MiFID II certification	Reporting ESG Ratings	
Priority III	CMU Clearing Liquidity Fund Ownership	MiCA		Engagement	

General comments

- Financial market participants and intermediaries should have a longer period to comply with regulations/directives and should be less complex and less uncertain from the beginning. We identified two types of issues:
  - Some consultations have been launched to amend regulations/directives shortly after their approval. Recommendations to National Competent Authority issued not to take any supervisory action (e.g., SFDR).
  - It takes years to fully develop legislation at all regulatory levels, such as regulation/directive, transposition into national law (for directives), Regulatory Technical Standards Implementing Technical Standards, and guidelines. This makes it often impossible to understand with sufficient advance before entry into force (e.g., DORA).
- Excessive counterproductive burden on market participants and intermediaries translates into higher costs and lower service quality for clients. A more organic view of compliance efforts and deadlines is needed to avoid such issues. New laws and regulations are often considered on a stand-alone basis by regulators to comply with meet deadlines. But market participants and intermediaries face several of them, with related changes, at the same time. Thus, a significant part of the budget should be allocated to regulatory compliance, reducing allocation to business development. This will increase the value of the services offered, including sustainability outcomes.
- Some CFA Society Italy (CFASI) members hold the view that there should be more detailed regulation and stronger enforcement at EU level where externalities are significant, such as sustainability, similarly to prudential banking, Information and Communications Technology, Anti-Money Laundering regulation, and supervision. And regulations of services for which the functioning of the market is assured, such as providing financial advisory, should allow more flexibility for the market to determine the business model that best fits evolving client needs.

Resiliency of Capital Markets

Inducements

As investment professionals, the society wants to see a competitive and innovative market that works well for consumers, firms, and the wider economy. Banks and financial advisors should perform their fiduciary duties to consumers and act in their best interest when providing services to them.

A market in which consumers can make informed investment decisions is needed. Two important aspects can be improved to facilitate this. First, transparency of the overall costs of products and services. Second, transparency on any conflict of interest that may arise in providing them to investors.

The Italian wealth management market has historically been, and still is, heavily reliant on inducements.

Any form of inducements that characterize the Italian wealth management market are prone to generating conflicts of interest in the provision of products and services that go against the best interest of the client, say some CFASI members. Often banks or financial advisors providing products and services are not remunerated by their actual users (i.e., their clients) but by the product manufacturers. This generates a conflict of interest because they may prefer the products that pay them the most and not those that make the best product for their clients.

Other CFASI members disagree with the view expressed above. Both fee-based and inducement-based models are not ideal and can generate conflicts of interest. In the case of fee-based advisory, there is a risk of excessive portfolio turnover to generate. For example, up-front and switching fees for financial intermediaries.

Inducement-based advice makes up 80% of the Italian private banking market, data from the Italian Private Banking Association (AIPB) show. More than one-third of AUM flows in March 2024 were in fee-based advisory*, as per the recent statistics from Assoreti, an Italian association that represents financial advisory networks. It's clear that there's a growing market interest in this model. This trend could be indicative of a shift in investor preferences or a response to increased transparency in fee structures. (*Encompassing both fee-only and "fee on top" models, with the latter raising concerns for being potentially difficult to be interpreted, especially by less-well-finally educated investors.)

However, the inducement-based model is considered by many market participants crucial for ensuring access to financial advice, particularly for retail investors. This model allows a wide range of products and services to be accessible to retail investors, many of whom may not be willing to pay directly for investment advice. Forty-two percent of Italian retail investors are not aware of the nature of the remuneration of their financial advisors, whilst 57% would not be willing to pay direct financial investment advice, according to the 2022 Consob study on the Italian retail market. Therefore, a ban on inducements would leave a significant portion of retail investors unattended and could reduce profits in the Italian banking sector (2023 estimates range from -15% to -27%). Financial advisors' remuneration could also be reduced by 25%.

A study completed by KPMG in 2021 (mandated by several national category associations) shows that, when investment advice is provided by a financial advisor, there is no evidence of a major cost reduction to the investor when comparing the fee-based and the inducement-based investment models. On the other hand, the fee-based model could prevent retail investors with smaller assets from referring to a financial advisor. This leaves lower AUM investors unadvised, not benefiting from professional competences.

The development of automated or hybrid advice for consumers with low investible assets could help address the needs of this segment of investors. But it is proceeding slowly, and there are many uncertainties about its effectiveness. Also, it is unclear if automated advice fulfils fiduciary duties.

Therefore, an approach where both models are allowed might be most effective, since maintaining both models could cater to the diverse needs and preferences of investors, ensuring broad access to financial advice while also accommodating those who prefer the fee-based model. This approach would also align with the goal of preventing excessive regulation that could hinder market development and would not disrupt a market that today in Italy is still heavily reliant on inducements and that will require years to evolve.

At the same time, efforts should continue to simplify investor disclosures and use digital tools for improved communication and transparency. A simpler and more straightforward indication of costs on a single page should be provided to the client. Today there is already enough disclosure, but it is lengthy and spread over many pages. Many investors ignore it or are not able to understand the relevant pieces. It would be desirable to offer to clients both options of fee only (with clean share classes) as well as a retrocession model and let the client decide the preferred model. This, together with progress in financial education and awareness, would help investors make more informed decisions, regardless of the remuneration model of their financial advisors.

Banning inducements could lead to a shift in costs that still impacts the client, even if they aren't directly paying the manufacturer. The costs might be split between the manufacturer and distributor. But this division may not have a clear effect on the total costs.

Finfluencers

New rules are needed. The gap between rules for financial intermediaries and the lack of rules for finfluencers is a big threat to both intermediaries and clients.

Securitization

Securitization can play a crucial role in the resilience of capital markets by providing an additional funding source and freeing up capacity on banks' balance sheets. This enables banks to lend more, contributing to a well-functioning financial system that efficiently pumps up the real economy. The process involves banks and other credit institutions packaging loans into securities and selling them to investors. This transfers the risk of some loans to other entities like insurance companies and asset managers. As a result, banks can use the capital that was previously set aside for those loans to create and sell new loans. This can be beneficial for supporting challenges like the green transition, which requires significant financing from both private and public investors.

Comparatively, the securitization market in the United States is significantly larger than in Europe. The EU market has shrunk since the global financial crisis of 2008, while the US market has expanded.

European placed issuance source: Association for Financial Markets in Europe (AFME)

Values in EUR bn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
European placed	105.5	24.7	89.8	88.9	87.0	75.9	78.2	83.2	97.1	111.7	135.7	119.2	81.8	126.0	79.7	94.6
European retained	713.2	399.3	288.1	287.9	170.9	104.8	138.8	133.5	142.4	124.4	133.1	101.7	116.4	107.1	23.6	118.5
European retention (%)	87%	94%	76%	76%	66%	58%	64%	62%	59%	53%	50%	46%	58%	46%	61%	56%
Total European	**818.7**	**423.9**	**378.0**	**376.8**	**257.8**	**180.8**	**217.0**	**216.6**	**239.5**	**236.0**	**268.8**	**220.9**	**194.7**	**233.1**	**203.3**	**213.1**
Total US[4]	**967**	**1447**	**1246**	**1069**	**1609**	**1565**	**1191**	**1745**	**1860**	**1899**	**1670**	**1953**	**3350**	**3891**	**2049**	**1525**

This difference reflects structural features of the US market, where securitization plays a more important role in market-based funding. A large share of securitizations, particularly mortgage-backed securities, is guaranteed by US government agencies. It is further linked to the lower capital charges for US banks, insurance investors, looser rules for structuring, reporting, and due diligence.

More needs to be done beyond implementing the simple, transparent, and standardised (STS) framework and encouraging green securitization. The EU should also consider additional measures to reduce the prudential regulation gap between the EU and the United States. This can be achieved by recalibrating risk sensitivity and capital requirements.

Fintech

AI

While CFASI Advocacy Committee Members do not have deep understanding of the specifics of EU AI Act, the following considerations emerged during the brainstorming sessions:

Defining the Scope of Application: Establishing a clear scope is crucial to ensuring that the regulation applies appropriately. Considering differentiating products based on end-users and structure can be a helpful approach. This could involve categorizing AI systems based on their complexity, purpose, or potential impact, which can help clarify regulatory boundaries.

Responsibility: Determining responsibility in cases where the creator cannot predict the AI's results presents a significant challenge. Downgrading AI systems to a level where predictions are more feasible, such as robo-advisory systems, might help. This may indeed be a practical solution. It's also essential to ensure that this approach does not hinder innovation or limit the potential benefits of more advanced AI systems.

Marketing: Addressing the issue of marketing simple algorithms or basic automations as AI will prevent misleading practices. Clear guidelines and criteria for what constitutes AI can eliminate confusion and ensure transparency in the market. This can also help individual investors make informed decisions about the products and services they use.

MiCA

The view of the European Central Bank: "Bitcoin has failed on the promise to be a global decentralized digital currency and is still hardly used for legitimate transfers. The latest approval of an Exchange-Traded Fund doesn't change the fact that bitcoin is not suitable as a means of payment or as an investment."[1]

Exposure to crypto is estimated to be 912 million euros in the third quarter of 2023, according to the Il Sole 24 Ore[2] study. This is **not a major concern for asset and wealth management firms in Italy**. Major brokerage platforms abstain from offering direct access to crypto. OTC derivatives (Contracts for Difference and knock outs) with underlying futures on bitcoin and Ethereum are available.

[1] www.ecb.europa.eu/press/blog/date/2024/html/ecb.blog20240222~0929f86e23.en.html

[2] www.ilsole24ore.com/art/criptovalute-calo-portafoglio-italiani-AFfZ7wwB

Cloud and data security

The use of cloud computing has been a growing trend among Italian asset and wealth managers. **Firms tend to adopt hybrid models** in which sensitive data are stored on-premises. This approach combines the flexibility and scalability of cloud solutions with the security of keeping sensitive data within their own infrastructure.

Many concerns surround the use of cloud services and data security in asset and wealth management.

Firstly, one of the primary concerns is the **cost associated with cloud services**. While cloud services offer scalability and flexibility, they can also lead to increased expenses over time. This is true if the usage of cloud resources is not optimally managed.

Secondly, there is the issue of **vendor lock-in**. Once an organization moves its operations to the cloud, it can be challenging to migrate to a different provider or return to an on-premises solution due to the high switching costs and technical complexities involved.

Another concern is the **dominance of a few major players** in the cloud industry. This concentration of power can lead to a lack of competition, potentially resulting in higher prices and less innovation over time.

In terms of data security, while cloud providers generally have robust security measures in place, the fact remains that sensitive data is being stored off-premises. This can lead to concerns about **data breaches, data sovereignty**, and **compliance with regulations** such as the GDPR.

Furthermore, in the asset and wealth management sectors, where timely and accurate data are crucial, there may be concerns about the **reliability and latency** of cloud services. Any downtime or delay in data access can have significant implications. There are also issues around **data privacy**. With data being stored in the cloud, there are concerns about who has access to this data and how they are being used. This is relevant considering recent discussions about data privacy and surveillance.

Finally, there are growing concerns regarding **environmental sustainability**. The demands of power consumption and cooling capacity of cloud computing continue to escalate exponentially. When the energy powering data centers is derived from non-renewable sources, it can result in significant carbon emissions. Financial intermediaries should report these emissions as scope 3, a category that is currently often overlooked, for example in long-term Incentive (LTI) plans.

Gamification

Italian investment platforms generally use **gamification** techniques by being careful to avoid the risk of excessive trading. Some brokers operating at the international level do not follow the same precautions. **Existing regulatory frameworks should be sufficient to prevent abuses.**

To add consistency to the framework, action could be taken at an educational level. It should start from schools and regulating financial influencers in the dissemination of information and the incorrect teaching of financial practice and theory.

Digital euro

The issuance of the digital euro by the ECB is in the process of being approved. It supports the digitization of the economy by maintaining the access and full usability to the public of the central bank's currency while preserving monetary sovereignty.

From the first indications that emerged in the worktables, it will be distributed by the banks, with free basic services to citizens. It will also be available offline.

The main impacts on the financial system are the loss of margins on deposits from customers. Impacts that would be amplified if remuneration were introduced on the digital euros and vice versa would be limited by a maximum quantitative holding limit.

Negative impacts in terms of marginality could be balanced by more opportunities for innovation and the development of new business models.

A challenge that calls for the introduction of new technologies by the private sector that protect privacy and are profitable.

Business Conduct

Retail investment strategy

Measures for the standardization of the presentation of information on costs, associated changes, and third-party payments:

Any information provided on an ex-ante basis is an estimate and hence highly difficult to standardize. On the other hand, when carrying out multiple transactions, given that ex-ante disclosure must be provided for each transaction, clients are often confused by the overload of information. **It would be preferable to only provide ex-ante cost disclosure at client request, only keeping the annual costs and charges statement as mandatory.** A relevant aspect also includes the concept of expected returns (and the subjective and hypothetical nature of the related costs).

Requirements for investment firms and insurances to provide an annual statement with information on costs and charges, including third-party payments and performance:

The way to represent costs and charges is described in ESMA guidelines and/or National Competent Authority recommendations (refer to Consob recommendation n. 1/2020, dated May 2020). Those indications could be included in delegated regulations to enhance standardization, since present representations often deviate from the one included in the ESMA guidelines (Q13 on costs and charges). **The standardization would also benefit from deadlines for manufacturers to provide information to distributors. And for distributors to provide the annual statement to end-clients, since at present no such deadline is given.** For example, Consob recommends Italian intermediaries to provide the annual statement by the end of April of the following year. This timing is often not possible given that non-Italian manufacturers do not have any specific deadline. So the result is either that the Italian intermediary is not able to follow the Consob recommendation or that the annual statement is incomplete. This matter is even more significant in considering the differences between open or closed architecture (the Italian financial market often operates in open architecture).

Restrictions would be eased in terms of professional experience, but not necessarily in terms of wealth, according to the first draft of the Retail Investment Strategy proposal on easing restrictions from investors to qualify as professionals. The initial proposal lowers the value of minimum wealth but introduces the concept of persistence for three years. This poses a **difficulty in monitoring the persistence (at point in time, on average, other criteria), and the valuation should be at point in time, potentially with an obligation to review it over time** (but removing the persistence check for initial classification). Additionally, **a new criterion could be introduced to value whether professional advice is provided or a professional mandate is in place** (the AIPB has strongly argued for this case in the past). In those cases, even if the client does not have professional knowledge or experience, the advisor/relationship manager does. This latter point is **also linked to business conduct, to mis-selling and especially relevant in the case of private markets.**

Mis-selling

Strong measures are already in place (target market, suitability and appropriateness checks). An **additional measure could be the obligation for manufacturers to periodically request and examine information on sales outside the positive target market.** At present, manufacturers have the possibility to request information from distributors but are often not open to discussion. Higher mis-selling risk could be present in **private markets**, given the higher complexity, lower liquidity, and less clear valuation methodologies. An additional point is due to the risks in private products secondary markets (fair value versus market/liquidity discount and market efficiency).

Financial education

A possible measure would be to **create short learning sessions or documentation that intermediaries would have to ensure clients follow or receive, especially before buying complex and advanced products or services.** The client would have to confirm receipt or understanding of the learning material, but only once (or, possibly, with regular review). A similar activity is carried out by the Bank of Italy with its practical guides, covering topics related to banking transparency. The learning material should be **drafted or provided by ESMAs or NCAs**. Consob already has a section of its public website dedicated to financial education, but none of its material is of mandatory use by intermediaries.

MiFID II certification

The regulatory framework is becoming increasingly complex, and the range of available financial instruments and asset classes is expanding. As a result, more focus should be given to the competences of financial advisors and professionals.

Sustainability

SFDR

Differentiate disclosure from labeling requirements

The classification of financial instruments introduced by the SFDR was to define reporting requirements. But it was interpreted by market participants as a labeling exercise, becoming very relevant for commercial purposes too.

Some society members agree with one of the proposals of the recent consultation on SFDR that **the disclosure of ESG characteristics should be made compulsory to all financial instruments. And that a completely new classification framework, more granular, should be introduced for labelling.**

Lack of unified EU guidance

Unclear definitions in the regulation led to regulatory bodies in other EU countries offering support, guidance, and sometimes explicit quantitative benchmarks. This didn’t happen in Italy, introducing the following major challenges within the country’s financial market.

Lack of specific quantitative thresholds provided by European regulators for distinguishing among articles 6, 8, and 9 products.

This disparity places Italian market participants at a competitive disadvantage, as it complicates compliance efforts and strategic positioning within the broader European sustainable finance market.

Reclassification and potential green hushing.

The ambiguity surrounding SFDR's classification criteria at the European level has led to inconsistencies in marketing and disclosure practices. This confuses investors and undermines their trust. A notable instance of this ambiguity was observed with funds tracking the Climate Transition Benchmark (CTB) and Paris Aligned Benchmark (PAB). Both were initially classified under article 9 but subsequently reclassified to article 8 amid concerns over greenwashing. Despite later clarifications from the European Commission allowing such funds to be categorized under article 9, the industry has predominantly opted for article 8 classifications to minimize risk. This cautious approach can lead to "green hushing," where the environmental benefits of products are underreported, further complicating the development of sustainable investment products.

Risk of misalignment between investment characteristics and investors' sustainability preferences, particularly for retail investors.

Retail investors, often lacking the resources and expertise to conduct thorough analyses, are especially susceptible to the pitfalls of misclassification and greenwashing. Also, the SFDR classification is not coherent with the language used in MiFID. The fact that under article 8 classification fall funds with very different levels of ambition in terms of ESG impact makes the misalignment even more likely.

Funds of funds (FoFs) face increased challenges in applying SFDR.

FoFs are uniquely impacted due to SFDR's primary focus on direct investments. It gets compounded by the absence of a universally accepted definition of sustainable investing within the framework. The qualitative and narrative-heavy format of the SFDR Annex, coupled with the missing quantitative thresholds for sustainability criteria, further complicates the aggregation of sustainability data from underlying funds. It hinders the ability to effectively compare the sustainability characteristics and impacts of different funds, increasing the operational burden on FoFs and the misalignment risk.

Sustainability reporting

Double materiality

According to CSRD, the reporting company defines which ESG Key Performance Indicators have financial or impact materiality and should be reported, without any specific prescription from the regulator, save for the absence of Greenhouse Gas emission data. **The reporting standard developed by the regulator (i.e., the ESRS) covers double materiality, but it does not specify a methodology for identifying financial materiality** in a clear, robust way, that is different from impact materiality. In addition, the **lack of sector or activity-based reporting standards** leaves companies with no guidance on which sustainability issues they should report. Therefore, the comparability and usefulness of EU mandated ESG reporting is in serious doubt, even among similar companies.

Green Asset Ratio is not a proper indicator in an SMEs-dominated economy

SMEs are a keystone of the Italian economy. Their economic importance is above the euro area average. Therefore, for the sustainable transition of the Italian economy, it is paramount that SMEs are not excluded from its positive effects.

The Green Asset Ratio (GAR) is a ratio quantifying taxonomy-aligned assets for banks. Only those assets subject to the NFRD/CSRD must disclose their alignment with the EU taxonomy and are included in the numerator of the GAR. The bank's exposure to SMEs counts towards the denominator but not the numerator of the GAR, as SMEs are not subject to NFRD/CSRD.

As major parts of the economy financed by banks are not tracked by GAR, the **GAR can't be considered a key metric to verify the progress on sustainability commitments.** A simple comparison of GAR between banks could be misleading.

European Banking Authority has partially faced this problem by introducing the **Banking Book Taxonomy Alignment Ratio (BTAR)**. It was explicitly designed to consider financial institutions' exposure toward assets not necessarily subject to mandatory disclosure, such as SMEs, even if they are aligned with the EU taxonomy. However, this solution is still not sufficient since banks are required to collect data in the origination and monitoring phases on a "best-effort basis."

As a result, financial intermediaries might have to estimate a ratio that, despite being equal in name, might vary substantially based on the assumptions in estimates and data collection. This is in addition to the efforts required of SMEs that might be asked to share data from several institutions in an inconsistent way.

Therefore, there is a need for standardization of the collection, measurement, and distribution of taxonomy data and estimates, that takes into account SMEs characteristics.

Finally, to be a relevant indicator and serve the purpose of increasing financing for sustainable projects, GAR should be linked to banks' capital requirements. But currently it is relevant only for general ESG assessment from banks' stakeholders.

ESG ratings

ESG ratings should be less opaque and updated with a minimum frequency and should be called "scores" instead.

The still significant heterogeneity between the ESG ratings/scores published by different ESG data providers, and the time lag in the rating update process often makes it difficult, in Italy as in other countries, to compare the portfolio's ESG assessment carried out by different asset managers and their distribution partners.

This effect is further emphasized when comparing the results of a multi-vendor approach versus the use of a single ESG data provider. The diversity in ESG ratings, while challenging, may offer valuable insights when based on varied methodologies.

However, enhancing transparency about these methodologies is crucial to enable both investors and rated companies to understand the differences.

ESG data providers release their assessments on a rolling basis rather than a fixed one. Often in the absence of updated data, continue to use the old ones, making the comparison between ESG evaluations not significant, even when using only one ESG data provider. The recent agreement reached by the European Council and Parliament for a regulation on the activities of ESG rating providers is already expected to foster greater transparency on the methodologies used by each provider. It will help to calculate the sustainability assessments (for instance ESG scores or sustainability data estimation). **It should also regulate the release of these sustainability assessments, even at the expense of coverage.**

Most ESG "ratings" are in fact based on a scoring system that models the entire distribution of expected returns of a financial asset, whereas a proper rating system models only the extreme event of default. Therefore, the variability of ESG "ratings" of the same issuer by different providers is to be expected. **We propose that the EU regulation should have the providers use the denomination of "ESG Score" and allow the "ESG Rating" denomination only if it refers to a probability of default.**

Multiple voting rights shares

On February 27, 2024, the Italian Senate approved the law "Interventions to support the competitiveness of capital and delegation to the Government." This law aims to reform the provisions on capital markets in the Consolidated Law on Finance (TUF) and capital companies in the civil code. These laws are fundamental to governing financial markets in Italy. The new law is also referred to as the "DDL Capitali."

A primary motivating factor for DDL Capitali has been the underperformance of the Italian stock market in comparison to its European peers. It is coupled with the trend of major Italian companies relocating their legal headquarters, primarily to the Netherlands. This relocation aims to take advantage of the more flexible corporate laws available there, particularly multiple voting rights.

Under the previous legislation, shareholders could obtain up to two additional voting rights if they held shares for at least 24 months (3:1 ratio). However, with the introduction of DDL Capitali, the allocation of voting rights per share can now increase progressively in 12-month intervals. It can reach a maximum of 10 voting rights per share (10:1 ratio).

The new law has sparked concerns among large, listed companies and proxy advisors. Primary concerns are the revised regulations for the presentation of Board Slates for director elections, and the shareholder loyalty initiatives.

For example, multiple voting rights shares "Glass Lewis" is opposed to measures that create different classes of shareholders or treat shareholders unequally. Granting extra voting rights as loyalty incentives for shareholders may accomplish the intended effect of maintaining a stable shareholder structure and decreasing volatility. But there is **concern about the further misalignment of the one-share, one-vote principle.** In this case, the proposed **EU Listing Act may ultimately have the last word on the regulation of multi-voting procedures across national markets. This could serve to level the playing field across the continent**."[3]

Engagement with shareholders and stakeholders

Engagement by investors with companies on ESG issues should also be monitored through the disclosure made by companies. This rarely happens.

Italian corporate governance code includes principles and recommendations concerning director-shareholder dialogue. The code also recommends a policy for managing dialogue with the shareholders. And the engagement policies followed by institutional investors and asset managers should also be adopted by the board of directors. The policy should also find a space in the yearly corporate

[3]www.glasslewis.com/italys-capital-markets-bill-raises-governance-concerns

governance report. But companies rarely publicly disclose the nature and the extent of the engagements, the most significant issues discussed, and the relevant steps taken by the company. Increased communication by companies about ESG issues because of engagements could be a benefit both for companies (understanding expectations) and investors (identifying best practices).

Green bonds

The EU Standards mitigate the risk of greenwashing. The EU Green Bond Standard represents a significant advancement in fostering trust within the green bond market. It is expected to broaden the investor base, extending it to individual investors. Aligned with the EU taxonomy, the standard aims to promote consistency and comparability in the market, benefiting both issuers and investors of green bonds. The regulation also introduces a registration system and supervisory framework for external reviewers. This framework mitigates the risks associated with greenwashing, thereby stimulating capital flows into environmentally sustainable projects. **A major constraint for non-financial corporations in issuing green bonds is the restrictions on the allocation of proceeds.**

SLBs are more flexible and more integrated in firms' financial management. A significant development in the field of sustainable debt, originating in Italy, was the issuance of SLBs. Launched by Enel in 2019 and subsequently adopted by other large corporations, primarily in the energy and utilities sector. This trend was driven by a robust demand for investment opportunities aligned with climate objectives. As general-purpose financial instruments, SLBs are relatively straightforward to issue once a framework has been established. They can be seamlessly integrated into a firm's overall financial management. The SLB framework is also employed for renegotiating both existing and new bank loans, which are the predominant form of financing for corporations in Italy. From a regulatory perspective, the EU Green Bond Standard addresses SLBs through an optional disclosure system.

Credibility concerns on SLBs require better transition plans. Investors are raising concerns about the credibility of the climate benefits of SLBs despite their growing popularity.[4] The link between the KPIs, targets, bond structure, and penalties is being questioned. Overall transition planning is also a major concern for investors. Although most SLBs are tied to the issuer's GHG emissions, this measure has been misused by opaque issuers. For example, it is included only as an irrelevant portion of their total GHG emissions. To gain the market's trust, issuers must disclose their transition plans, showing an overall direction in the firm's transition process beyond specific KPIs. But most disclosed transition plans do not meet credibility standards.[5] **Thus, additional guidance from regulators on transition planning is required to significantly improve market trust.**

[4] www.ft.com/content/309a703a-3a5f-420e-afea-38a142a2f21a

[5] www.ey.com/en_uk/news/2023/04/only-five-percentage-of-ftse-100-have-published-net-zero-plans

CFA Society Spain Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	SMEs obstaclest	ICT providers concentration Regulatory Sandbox	RIS and Value for Money Financial Education	Investor behavior	
Priority II	Gold-plating	Cloud and Data Security AI Sandbox		Green bonds Green products and Financial Education	Pensions reform
Priority III	Absence of IPOs US ETFs				

Resiliency of Capital Markets

SMEs and capital markets

Several obstacles that negatively affect the financing of SMEs remain unresolved.

CFA Institute EU Blueprint 2019 emphasized the need for common legislation at the EU level to support SMEs in the primary market issuance process. This legislation would aid the fundraising process for SMEs, provide a consistent framework for risk indicators, balance sheet presentation, and governance, and address the challenges that hinder SMEs from going public. It will also help to seek funds from capital markets instead of relying solely on bank loans.

But the situation has remained unchanged. There are several possible reasons for the lack of SMEs opting to go public. One is the evidence that post initial public offering (IPO) performance tends to be worse for SMEs. This is likely due to the burdensome bureaucratic requirements associated with being a listed company. It can be overwhelming for companies with limited resources and capacity. Consequently, many SMEs hesitate to pursue IPOs as they fear that the demands of being a listed company may outweigh the benefits.

This matter is currently being discussed in various forums, including OECD research conducted in multiple countries. The goal is to examine why the Capital Market Union has not been as effective in some countries in transitioning companies from bank loans to capital markets as a source of capital.

One possible explanation could be the varying levels of regulatory requirements across countries (gold-plating). Some countries may have additional measures and stricter regulations for accessing capital markets, creating barriers for SMEs.

Additionally, the lack of incentives for SMEs to grow into larger entities may contribute to the challenge. For instance, in Spain, 97% of companies are SMEs and 94% are micro-enterprises with an average of 1.7 employees. Encouraging SMEs to expand and providing incentives for growth could potentially address this issue.

Public markets

There is a noticeable absence of IPOs in the primary market that cater specifically to retail investors.

During May 2024, one of Spain's largest companies launched an IPO, the largest in Europe for the year. But this IPO was exclusively targeted towards professional and institutional investors. It excluded retail investors who will have to wait to buy shares in the secondary market. Remarkably, it has been almost 10 years since the last IPO in Spain's primary market that was open to retail investors.

The reason behind this trend is primarily attributed to the increasing regulatory requirements and risk assessment procedures. These factors heavily impact the preparation of the prospectus and the documentation that must be presented to regulators. This prolongs the overall timeline for IPO readiness.

This scenario is not unique to Spain but prevalent across Europe. The most recent public placement accessible to retail investors was seen with Porsche in 2022.

US ETFs

Regulators should reevaluate the restriction on US ETFs, even without the necessity for the Key Investor Information Document document.

At times, this requires investing in less liquid products, which may not be the optimal way to safeguard investors.

The valuable benefits that ETFs bring in terms of diversification and risk management make this exclusion even more noteworthy. Allowing EU investors access to US ETFs could expand their portfolio options and enhance their entry into global markets. Revisiting the ban on US ETFs without the need for the KIID document has the potential to create a more diverse investment landscape. It provides investors with a wider array of choices to meet their financial objectives. Such a move would signify a positive progression towards harmonizing regulations with market dynamics and investor requirements.

Gold-plating

The presence of gold-plating practices within the EU undermines a unified regulatory landscape and creates opportunities for regulatory arbitrage among member states.

The Advocacy Committee of CFA Society Spain, in partnership with other local European societies, conducted a comprehensive analysis of the gold-plating concept. Through dialogues within our network, we pinpointed key gold-plating practices that are crucial for the progress and vitality of the capital markets union.

Some significant examples:

1. Investment firms (ESIs, in Spanish) must assess the knowledge and experience of retail clients seeking professional client status before accepting the change. If the ESI meets the first requirement of the rule, they should consider the significant volume of transactions in the "relevant market for the financial instrument in question or similar instruments." This wording is more restrictive than MiFID II.
2. Spanish regulation was more restrictive than MiFID II, and specific assumptions were determined to justify the increase in the quality of service. The goal was to explain its proportionality to the level of incentives received. But some of the best practices indicated by ESMA coincide with the cases of Spanish regulation. ESMA sets the assumptions for considering the provision of an additional or higher level of service to the client. This is proportionate to the level of inducements received. However, ESMA explains that these examples would not apply to jurisdictions whose regulations list the assumptions of increased quality of service as a closed list.
3. The Comisión Nacional del Mercado de Valores (CNMV, Spanish National Securities Market Commission) requires a third-country firm to establish a branch in Spain if it provides or intends to provide investment services to professional clients or eligible counterparties.
4. UCITS regulations do not specify requirements for maturity or buy and hold funds as long as they meet diversification and other criteria. In April 2023, due to their proliferation in Spain, the CNMV published a guide on additional measures for these UCITS prospectuses, including risk warnings and management fee limits. This limit is also included in a CNMV Q&As on collective investment institutions (IICs, in Spanish).
5. European regulations do not provide a list of expenses that can be attributed to the fund, only requiring detailed disclosure in the prospectus. But, question 62 of the CNMV's Q&As on IICs expressly outlines which expenses

can and cannot be charged to the fund. In Luxembourg, funds incur more expenses than Spanish funds, as the CNMV deems the management fee to cover administration and typical expenses such as withholding tax recovery.

6. Article 5 of the RIIC (Regulation of Collective Investment Institutions) specifies the fees. Unlike other places, in Spain, the marketer can't charge the fund a separate marketing fee (apart from the management fee). In the ESMA report on due and undue costs, marketing fees (one-shot and ongoing) are recognized as "due costs" charged to investment funds.
7. The latest changes in the RIIC regulations allow marketers to charge custody and administration fees for same group managers using omnibus accounts. But, the requirement for fund managers who switched from non-omnibus to omnibus accounts to maintain the unit holder register until the change date complicates matters. This makes using omnibus accounts or pre-existing funds less worthwhile. This complicates taxation in transfers and hinders omnibus account development in Spain. The simple solution would be to allow an assignment of the pre-omnibus account ledger for the specific trader.
8. Securities lending regulations have not been developed. Spain is one of the few EU countries lacking these regulations. Thus, investment funds cannot benefit from this potential revenue stream.
9. There is a minimum number of 100 members in an "ordinary" investment fund, fewer in a hedge fund or fund of hedge funds. In other jurisdictions, there is no minimum number.

Fintech

Regulatory sandbox

The Spanish Regulatory Sandbox serves as a model that the European Union (EU) could employ on a global scale to promote innovation.

In March 2024, the Ministry of Economy, Trade, and Enterprise (MINECO) opened the registration for the seventh cohort for project submissions to the controlled test space (Sandbox).

It is a controlled testing environment promoted and supervised by authorities (securities, banking, and insurance). The goal is to analyze the evolution and impacts of these innovations for developing cutting-edge business models and systems securely. It has strong support from the banking and fintech sectors and is seen as an industry benefit.

This is an example of initiatives in which Spain stands out from other European countries. This type of initiative could be launched at a European level to promote cross-border innovation. The Sandbox provides a safe environment for testing new ideas and technologies. It enables companies to explore new areas while minimizing risks. It encourages knowledge sharing and cross-border cooperation, paving the way for a more connected and innovative European landscape. As technology advances, initiatives like these will play a crucial role in shaping the continent's industries.

AI Sandbox

The Spanish AI Sandbox, while being the first, still needs to prove its value and leadership.

Spain takes the lead and is the first Member State to implement an AI Sandbox. In November 2023, the first controlled test environment was set up, in collaboration with the European Commission. The objective was to test the application of certain requirements foreseen in the AI regulation to high-risk AI systems. As a result of this test, evidence-based guidelines and experimentation that will help companies comply with the regulation will be obtained.

Cloud and data security

Regulators, supervisors and the financial industry will play a significant role in supporting and safeguarding the financial system against cyber attacks. Ensuring the integrity of the system has become the new paradigm for establishing and maintaining confidence in the digital age.

Asset management companies have increasingly turned to cloud storage to manage positions and transactions related to the funds they oversee. But this growing reliance on the cloud introduces significant cyber risks that pose challenges to the stability and security of the financial system. In this era of digital transformation, the entire patrimonial position of clients seemingly exists solely in the cloud. This raises cyberattack concerns surrounding the integrity of data and the confidence of the industry and customers.

There has been an exponential growth and sophistication of cyberattacks in recent years. This has underscored the need for a proactive and comprehensive approach to cybersecurity in the financial sector. With cybercriminals constantly evolving their methods to exploit vulnerabilities, the potential impact of an attack on asset management firms cannot be underestimated. It is no longer a question of if such an incident will occur, but rather when and how severe it will be.

To mitigate these risks, asset management companies must consider innovative solutions and measures that go beyond traditional security protocols. Simply relying on the cloud or a single cloud provider for data storage and software operations is inadequate. Replicating critical data in secure off-site locations, independent from the cloud infrastructure accessed by asset management companies, can serve as a safeguard against data manipulation or access restrictions.

Moreover, the repercussions of a high-impact cyber incident extend beyond the internal operations of asset management companies. Client confidence is paramount in the financial sector, especially as digital currencies and electronic money gain traction. The loss of credibility stemming from a cybersecurity breach could have far-reaching consequences. It is imperative to proactively address potential client concerns and explore mechanisms for ensuring their trust, such as holding reliable copies of their positions in separate cloud locations or involving trusted entities like central banks to serve as secure data custodians.

The role of regulators and supervisors in ensuring cyber resilience for asset management firms cannot be overstated. Robust security testing of cloud systems, comprehensive supervision, and effective crisis management frameworks are necessary to protect the financial system from potential vulnerabilities. Furthermore, addressing the concentration of market power in a limited number of cloud providers is essential to prevent a potential monopolistic situation that hinders competition and innovation.

The landscape of technology continues to evolve, with AI and quantum computing on the horizon. The need to stay ahead of emerging cyber risks grows even more urgent. Quantifying and understanding these risks, coupled with ongoing efforts to enhance cybersecurity measures, will be crucial for maintaining financial stability in an increasingly interconnected and digital world.

Information and Communication Technology (ICT) third-party providers in the EU

Taking action to address concerns regarding concentration of critical ICT third-party providers in the EU must be a priority.

The significant concentration of key cloud and software service providers, along with the associated risks, has been quantified in the recent European Supervisory Authorities (ESAs) report on third-party Information and ICT providers. It highlights the irreplaceability of ICT services that support critical financial functions. The findings underscore the heightened concerns surrounding the sector's concentration risk. The report also suggests a notable level of interconnectedness and interdependencies among these providers.

Going forward, the ESAs will need to build internal expertise on critical ICT third-party service providers, such as AWS, Google, or Oracle, in the realm of cloud services. As their activities currently fall outside the scope of supervision, bolstering the ESAs' teams is imperative.

Enhancing collaboration among regulatory authorities and sharing best practices will also be essential in addressing the concentration risk posed by these service providers. Overall, a coordinated approach at the EU level will be necessary to mitigate potential disruptions from concentrated ICT services.

Business conduct

Retail investor strategy

By standardizing due costs and encouraging fair competition, the industry could move towards a more efficient and investor-friendly environment.

The Advocacy Committee of CFA Society Spain reviewed the key points of the RIS. It studied the effects of RIS, in particular the value for money part, on the European industry and clients. ESMA's 2023 published opinion on "due and undue costs" was also taken into consideration.

The RIS generated a high degree of controversy and received numerous letters of protest from all the sectors involved.

It involves very complex challenges technically, and the benchmark idea may not necessarily be the best way to achieve the goals pursued. Instead, it would seem very wise to propose that the regulations of the different countries of the EU should enable the "due costs" indicated by ESMA to be standardized. They can be homogenized, and the entities participating in the value chain have the option, in a transparent manner, of charging for the different services they provide.

An assessment should be done between three and five years. It should evaluate whether the levels of incentives that are now evident are still being detected. Or they have been made clear, and the market itself has achieved convergence towards market prices. It may be simpler to just provide institutions with the necessary tools to charge transparently for their services.

After this transitional phase, market participants would be better prepared to navigate the regulatory landscape and offer services with clearer pricing structures. The focus would be on promoting transparency and aligning incentives to ensure fair treatment of investors. Continuous monitoring and evaluation would be essential to assess the effectiveness of these measures and make any necessary adjustments to further enhance market integrity.

Financial education

Despite Spain being ranked by the European Commission as one of the countries where its citizens are most comfortable with their finances (92%), only 8% have high or very high levels of knowledge.

In 2022, the European Commission published the results of its survey on Europeans' confidence in managing their personal finances. The main conclusion: 86% feel confident in managing their personal finances. In Spain, this figure rises to 92%.

Spain is below the average of OECD countries in financial literacy, according to the 2018 Bank of Spain and CNMV survey. Forty-six percent of respondents rated their financial knowledge as low or very low. Another 46% said medium, and only 8% reported high or very high.

In the same vein, SandP concluded in its Global Survey on Financial Competence for Savings, Investment and Borrowing Decisions. The survey was conducted in 2014 in 140 countries and addressed to 150,000 people. The survey reported that only 49% of adults in Spain are financially competent. Again, one of the lowest rates in Europe.

Sustainability

Green bonds

Standardization for using green bonds without the concern of compliance with various regulations is needed. This standardization will make them more accessible. Especially for institutions (such as insurance companies, corporate equity investments, pension funds, or IICs) that need to demonstrate a certain percentage of their portfolio invested in assets that are unmistakably green.

This assurance is crucial for potential investors who prioritize sustainability and seek verified green investment opportunities. Also, a unified standard helps build trust and credibility within the market, attracting more participants and capital. By offering a clear framework for green bond issuance and reporting, these standardized practices can streamline decision-making processes for investors and issuers alike. It will also promote the growth and acceptance of green bonds in the financial sector.

Green products and financial education

Limited financial knowledge hinders customer comprehension of financial documents. Product success is linked to market conditions and profitability rather than environmental impact.

Spain has a low level of financial literacy. This turns into a major challenge as customers comprehend not only the prospectus but also the periodic information. Often, one must have a dictionary at hand to decipher the content, assuming one is already familiar with the subject matter. The success of the product, in terms of market penetration and increased demand, will largely hinge on favorable market conditions that lead to positive returns. Whether the performance surpasses or falls short of equivalent non-ESG products, the primary concern for most individuals is achieving profitable outcomes (with the added benefit of environmental friendliness, if possible).

These challenges highlight the need for clear communication and education for consumers to understand investment products effectively. To ensure widespread adoption, providing accessible and easily digestible information is the key. Creating awareness about the benefits of ESG investments and how they align with personal financial goals is crucial for attracting more investors to these products. A combination of transparency, education, and market conditions will determine the success and acceptance of ESG investment options.

Investor behavior

Analyzing retail investor behavior in Spain: Insights on demographics, age trends, and gender representation.

In February 2024, the CNMV published the findings on retail investor behavior in the equity market, providing data for 2023. The data reveal an increasing share of retail investors in the market, with significant growth during the pandemic in 2020. A slight decline was seen in the following year, followed by a more pronounced upswing in 2023.

With 49.1% of the total volume, an increase from the previous year's 39.3%, the financial sector dominated the securities traded. While men still held the majority share of the volume traded in IBEX 35 shares, their percentage declined slightly to 79.4% in 2023. Women's share fluctuated. It fell in the first quarter but increased in the following two, resulting in a total share of 20.6% in 2022.

In terms of the average age of investors, men experienced an upward trend, reaching an average age of 51.9 in 2023 compared to 51.6 in 2022. Meanwhile, women's average age remained steady at 54.8 years.

It is worth noting that these factors contribute to fewer women having sufficient savings to invest, such as:

(i) Gender disparity in managerial roles. Women hold 40% of management positions in Spain. But there has been a significant decline in the percentage of female CEOs. The number dropped from 28% in 2023 to 19% currently. Refer to this industry report for more details.

(ii) Wage gap. In 2021, the average pay of men is EUR 28,388,69, compared to EUR 23,175,95 for women, according to the last Annual Survey of Salary Structure by the National Institute of Statistics (INE).

(iii) Single-parent households led by women. The European Anti Poverty Network (EAPN) reports that there are nearly 1.9 million single-parent households in Spain. Eighty-two percent are headed by single mothers. These households are 50% more likely to experience poverty. The report is titled in Spanish *Estudio Familias Monoparentales Perceptoras de Rentas Mínimas*.

This can be attributed to the income threshold required for savings, which is often more challenging for women to meet compared to men. Women's cautious approach to savings, combined with perceived risks and complexity of investment products, including ESG investing, may also contribute to their lower investment participation compared to men.

Implications of these findings highlight the need for targeted initiatives to bridge the gender gap in investment participation. Tailored financial education programs, career advancement opportunities for women, and enhanced support for single-parent households can play a crucial role in promoting financial inclusion and empowering women to build investment portfolios. Addressing the underlying factors inhibiting women's savings and investment habits is key to fostering a more diverse and inclusive investment landscape in Spain.

Pensions

Pension reforms

It is widely agreed in Europe that current reforms are insufficient to address the anticipated demographic changes. The key question remains: Who will step up to lead and how?

When considering pension reforms, regulators should prioritize several key aspects. It is essential for pension systems to be designed with long-term sustainability, taking into consideration demographic shifts and economic conditions. Examining the balance between lifetime benefits and contributions is crucial to ensure fairness and promote intergenerational equity. Diversifying the sources of retirement funding is paramount for pension arrangements. This includes the growth of asset-backed pension arrangements, a trend observed in most OECD member countries over the past two decades.

Spain has implemented various measures in its pension reforms, including:

(i) Increase in maximum contribution bases: The law mandates an annual update of the cap on contribution bases in each of the social security regimes.

(ii) Additional solidarity contribution: Employees with salaries surpassing the maximum contribution base are subject to an extra solidarity contribution.

(iii) Special-purpose contribution under the intergenerational fairness mechanism: This contribution, excluded from benefit calculations, contributes to the social security reserve fund.

(iv) Calculation of retirement pensions: The retirement pension is calculated by dividing the total of the person's contribution bases from the last 324 months by 378.

Given the inadequacy of current reforms in Europe to address the upcoming demographic shift, urgent leadership is required to navigate the future of pension systems. Collaboration among key stakeholders is essential to developing comprehensive strategies that can adapt to evolving population structures and economic landscapes. Innovative solutions are needed to strike a balance between sustainability, adequacy, and fairness in pension provisions. Policymakers must engage in proactive dialogue to implement effective reforms that secure the well-being of both current and future retirees.

CFA Society Poland Blueprint for the Next EU Legislative Period

Resiliency of Capital Markets

EU capital markets

The stakeholders in Poland express diverse opinions when discussing the CMU in the EU. There's a strong criticism towards current EU regulations and the CMU's implementation process.
A majority of stakeholders feel that the direction of CMU implementation is incorrect and believe that EU regulations hinder rather than support capital market development in Poland. Stakeholders' views on CMU as a concept vary based on their roles. While individual investors see it as a chance for more competition and better access to products, financial institutions fear heightened competition, particularly from larger foreign entities. Members of the CFA Society Poland generally support CMU but highlight various obstacles, such as conflicting national interests and regulatory inconsistencies. The debate also extends to the supervision structure, with differing opinions on the necessity of a single European regulator versus local supervision. It is difficult, if not impossible, to achieve the basic assumptions of CMU while it is being regulated by EU Directives which are implemented, interpreted, and enforced differently from one member state to the other. To achieve the CMU, the same legal acts binding all member states need to be implemented, enforced, and regulated. Opinions are divided on the optimal balance between EU and national regulatory control. While CMU offers potential benefits, stakeholders remain divided on its execution and regulatory framework.

Finfluencers

Activities of finfluencers require regulation.

It is crucial to actively conduct informational and warning campaigns aimed at drawing investors' attention to the risks associated with using information found on social media and the Internet. It is important to underscore the necessity of relying on credible sources of investment information to minimize the risk of losses.

Fintech

AI

AI should be regulated in the finance sector. Ethical concerns surrounding the use of AI in finance are numerous, as reported by CFA Society Poland's members.

- Breaches of privacy and data security.
- Lack of liability for incorrect or unfair decisions.
- Algorithms favoring certain customer groups.
- Algorithmic manipulation of financial markets.
- Increased risk of systemic crises.
- Decision-making without sufficient human supervision.
- Threat of job loss due to automation.

Of particular importance is regulating algorithmic AI liability. Determining who bears responsibility for adverse actions of AI is crucial for the welfare of financial institution customers. It is imperative to clarify the extent to which financial institutions and algorithm developers are accountable for the actions of algorithmic AI.

Business conduct

Retail investment strategy

There is a popular view on the Polish capital market that the current RIS primarily benefits large, developed European markets, while imposing significant burdens on smaller markets like Poland. The RIS aims to reduce product costs but introduces new processes that increase operating costs, including hiring new staff and investing in IT systems. These costs are expected to be passed on to consumers.

The RIS imposes various obligations, such as collecting cost-related data and conducting regular reviews, which are deemed time-consuming and costly. Professional market participants will have to bear additional costs to comply with these obligations, including hiring qualified staff and investing in IT systems. The pursuit of cheaper financial products is undermined by the introduction of costly legal and administrative requirements, harming consumers. It is questionable whether the RIS aims to alter the structure of financial markets in Central and Eastern Europe by limiting competition and consolidation.

Entities operating on the Polish capital market are concerned about the RIS's focus on cost to retail investors. They argue that it overlooks other important features of investment and insurance products. They view that the proposed solutions favor developed European markets and may deepen disparities between markets, undermining the goal of an integrated internal market.

The legal basis for the proposal is questioned. It may not adequately account for differences between member states' financial markets. If the proposal favors well-developed markets, it could create an uneven playing field and hinder the genuine free movement of services and establishments. The implementation of the RIS will negatively impact smaller financial markets like Poland, harming the interests of retail investors and magnifying disparities within the European financial landscape.

There is a general view that the currently used definition of a professional investor is too narrow and restrictive. There are voices advocating for enabling the willing investors to be treated as professional investors on their demand, either based on their assets or on their declaration of will.

Value for money

There are certain concerns in Poland regarding proposed changes in EU regulations, such as the assessment and monitoring of costs and performance of investment funds and insurance products across member states. The complexity of various cost models, fees, and tax treatments, particularly in Central and Eastern Europe, poses challenges in consistent implementation and monitoring of these changes. Without draft versions of delegated acts, there's apprehension that EU-level changes might not consider local market specifics. This will impact Polish market competitiveness. There is a concern that increased regulation will generate an additional cost burden and have a negative influence on smaller market institutions. This will limit the competition and support consolidation on the market. Instead of improving the situation of retail investors, it will further limit their choice and access to products on the market.

There are also concerns about the benchmark approach, especially its suitability given diverse market characteristics and the principle of proportionality. Also, certain doubts arise about the bias of benchmarks towards data from highly developed markets. This leads to disadvantaging markets with fewer products and higher historical costs. This could also lead to market distortions and limited availability of products for retail investors in Poland.

Entities and individuals operating on Polish capital market advocate for subsidiarity. They emphasize the need for proportionate solutions that accommodate local market nuances while ensuring investor protection. The imposition of common mechanisms for cost and performance assessment may exclude small investors. This is incomprehensible and unacceptable given Polish market diversity and local intricacies.

Sustainability

ESG legislation

Views on EU regulation of ESG issues vary. Only a small minority support continuing increased regulation, while a significant proportion prefer either rather liberalizing regulations or maintaining the current level. The support for investment restrictions against low ESG-ranked companies is close to none. Opinions of society members diverge on the double materiality concept and the establishment of an EU green bond standard, with differing levels of support among participants. There is a discrepancy in perspectives between both institutions and members managing financial institutions. It ranges from strong support for ESG regulations to minimal support or none at all.

Challenges in implementing regulations in the Polish market include:

- Need to adapt internal structures.
- Update management and reporting processes.
- Adjust IT systems.
- Incur additional costs.
- Find appropriate support and information sources.
- Standardize rules and guidelines nationally and provide staff training.

Pensions

EU PEPP

The significance of pension products for both local and European capital markets is widely acknowledged by Polish capital market entities. Strong support is evident for the PEPP and the general presence of European pension products. Challenges may arise from variations in tax systems across different member states, hindering efforts to promote saving in these products.

Pension reforms

Analysis of the trends prevailing in the Polish capital market indicates the need to rely on the development of the pension system. It focuses on three key areas: automatic enrollment, automation of the process of allocating financial instruments, and automatically collected contributions. Despite the untapped potential of the local Employee Capital Plans (PPK, the universal and voluntary savings system for retirement purposes), the fight for individual investors seems inappropriate. Instead, the focus should be made on systemic solutions in the pension product sector.

In the context of unifying pension systems in the EU, there is a risk of marginalization of local capital markets in the system. It would drive the investments to the biggest markets. Such process could further cut off funding for small and medium-sized enterprises from local markets. Instead, the EU should focus on coordinating social security and tax systems, which could benefit all member states. Also, there is a need to create frameworks for the development of long-term investment products to support stable economic growth in the EU.

CFA Society Romania Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	EU legislative framework	AI regulation – attention on not stiffening innovation		Green Bonds and Sustainability: ensuring that EU taxonomy does not hinder development of the new technologies	
Priority II	Banking union	Crypto assets – ensure a level playing field with other financial instruments	Re-evaluate cost disclosure requirements to prevent information overload	Enhancing the insurance sector's contributions to climate adaptation	Private pension systems should be encouraged by EU legislation
Priority III	Restriction for investors to qualify as professional investors		Any review of inducements measures should be conducted with a longer-term perspective, taking into account the evolving needs of individual investors	Addressing potential regulatory asset bubble	

Resiliency of Capital Markets

Investor protection

EU legislative framework has become too bureaucratic, cumbersome, and restrictive. The desire to fully protect all market participants by regulations and directives increases bureaucracy. It makes the investing process more complicated and creates barriers. And in the long run, generates the risk that clients either migrate to non-regulated products and platforms or decrease their participation. Simplification, pragmatism, and reduction of complexity is needed. Retail investment strategy should focus less on regulation and make new requirements for producers, distributors, and clients to enhance simplification and clarity.

US ETFs

Reassess the ban on the US ETFs without the KIID document. Currently, an EU investor could buy a Contract for Difference linked to an ETF, individual equities, or highly levered options. But they can't buy a listed ETF that provides diversification and less risk. This situation is strange.

Banking union and CMU

There is an urgency to finalize the Banking Union and move faster in building the CMU to strengthen the competitiveness of our European economy. More than regulation is needed to achieve deep and efficient capital markets across the EU. This requires financial literacy, promoting capital markets, tax consistency, and tax incentives as something positive, and solving several other issues, such as harmonization of laws like company and insolvency. Technological differences and innovation and divergent tax regimes (including the more recent "solidarity taxes") increase the risks for market fragmentation and arbitrage between the EU and other regions.

Inducements

Inducements must be disclosed (particularly on an ex-post annual basis). It is essential that any review of inducement measures be conducted with a longer-term perspective, considering the evolving needs of individual investors.

Fintech

AI

AI developments are happening very rapidly. Any regulation should be wary of not stiffening innovation in the AI domain. EU is already behind US and Asia.

MiCA

Fast-developing cryptoassets should be on a level playing field with other financial assets in the selling, promoting, and trading of such assets.

Business conduct

Retail investment strategy

Easing restrictions for investors to qualify as professionals. Current requirements are cumbersome and not grounded in reality. The requirement to have 40 transactions in the past year suggests trading activity and not necessary knowledge or value creation (even Warren Buffett would not qualify for this requirement in most years). This requirement should be eliminated. Restrictions should be limited to an amount (for example, EUR 100,000) and a client declaration that explains the risks.

Re-evaluate cost disclosure requirements to prevent information overload. Offer ex-ante cost disclosure only upon client request, while maintaining the annual costs and charges statement as mandatory.

Mis-selling

For mis-selling, robust measures are in place (such as target market assessments, suitability checks, and appropriateness checks). An additional measure could increase bureaucracy both for distributors and clients. It will also make investment products appear more complicated and riskier (by requesting additional questionnaires and information). Mis-selling risk could be significant in private markets due to higher complexity, lower liquidity, and less transparent valuation methodologies. Regulatory guidance on product governance of private assets is needed.

Sustainability

Address the risk of a regulatory asset bubble as excessive capital flows into limited sustainable opportunities.

Green bonds and sustainability

Ensure that EU taxonomy does not hinder development of the new technologies. Clarify the definition of green loans and mortgages—the market for green loans is developing outside the EU taxonomy framework, generating a high risk of greenwashing. Clarity from the ESAs after the European Banking Authority (EBA) call to advise on defining green loans is needed, potentially in a common framework with the Energy Performance of Buildings Directive.

Enhance the insurance sector's contributions to climate adaptation. There is an important protection gap for natural catastrophes, especially in some countries where the insurance sector is weak.

Pensions

Pension reforms

Private pension systems should be encouraged by EU legislation (Pillar II and Pillar III systems). For the aging population, the pay-as-you-go pension systems will have serious sustainability issues. A transition to a founded pension system should be implemented to ensure long-term sustainability. Avoid additional tax burdens on future generations.

CFA Society Netherlands Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Financial literacy	Financial literacy via technology		Energy transition, circularity and biodiversity	Promotion of second pillar funded workplace pensions
Priority II			Gold-plating	More attention to social topics within ESG	Focus on long-term investing and private investments
Priority III				Impact investments	

Resiliency of Capital Markets

There is a need for increasing focus on the topic of ''gold-plating.'' A positive example is the MiFID II Stay Compliant program of CFA Society Netherlands.
It promotes permanent education in the Dutch financial sector.

For gold-plating, the stance of regulator Autoriteit Financiële Markten (AFM) is that if an EID (Essential Investment Document) is not in Dutch, it cannot be registered with AFM. Also, the product cannot be sold to Dutch retail clients. As a result, certain pivotal ETFs and funds cannot be added to portfolios of retail clients or can't be sold. This leads to investors replicating the weightings of the basket by buying individual assets or only resorting to just a few securities. This increases transaction and holding costs and decreases diversification. Hence, although English is a common — and accepted — language worldwide, and language translation is easy, EU regulatory overregulation may backfire.

Fintech

Financial education and access to financial products are important for everyone. Social media, digital platforms. and finfluencing can play a complementary role in financial education. But they need more attention from market participants and regulators. Regulators should consider the CFA Institute recommendations from its report "The Finfluencer Appeal: Investing in the Age of Social Media."

Business conduct

Financial education

Efficient, orderly capital markets and increasing regulation about permanent education are good things. But sometimes the requirements and standards of education have been raised to counterproductive levels. For certain professions, such as execution desk, practical exams would be more adequate than academic-level exams. The higher the required level, the lower motivation may go, especially if the curriculum does not meet the required skills and knowledge of the job. For example, older, experienced, and skilled traders with knowledge of modern software, regulations, and procedures may fail the new standard. The result may be fewer traders, higher trading costs, and less service for clients.

Sustainability

Focus on the ESG topics such as energy transition, circularity, and biodiversity is needed.

Proper attention needs to be given to investments in "S." Examples include criteria for the mitigation of social injustice and the application of diversity, equity, and inclusion criteria in investments.

Impact investments are concentrated in private investments in real estate, infrastructure, natural resources, and private equity. Restrictions in regulations need to be evaluated to allow for more investment in these asset classes. CFA Society Netherlands recently published a research paper on the development of a blueprint to ease the transition for investments in alternatives under the new pension fund reform.

Investment professionals must put interests of clients on top and disregard any other interest, adhering to the principles of loyalty, prudence, and care.

They must determine the suitability of investments for their clients. But there's a growing societal and political movement urging the utilization of private investment to address environmental and social concerns. EU must ensure that the interests of clients come first.

CSDDD

EU's new due diligence law vote should drive supply chain sustainability efforts. But the financial sector has excluded itself from scrutinizing and reporting supply chains for its customers. Financial institutions will only be required to conduct due diligence on their own operations. How is this going to achieve a level playing field for all goods and services if financial services are excluded?

Pensions

Pension reforms and PEPP

The promotion of employer (second pillar) and individual pensions (third pillar) is important to ensure good income provision for the elderly citizens in an aging Europe. What's needed is a holistic approach to retirement in which attention is paid to the provision of a stable income after retirement, access to good health care, and participation in society.

Pension funds are long-term, responsible investments. The long term allows for diversification to private investments, contributing to the further development of capital markets.

It is important to increase pension savings by citizens that do not have access to good pension systems. The development of standardized, affordable individual pensions (like PEPP) in addition to state and workplace pensions contributes to better income prospects for retirees.

Elements of good pension system design include the inclusion of pension in collective labor agreements. The use of automatic enrollment mechanisms, adequate tax incentives, and national pension tracking systems to help employees navigate their pensions are needed.

CFA Society Belgium Blueprint for the Next EU Legislative Period

Resiliency of Capital Markets

Cross border capital market union development

- A single market for banks and insurance aids the cross-border investments, by developing a single passport. It also builds a better harmonization of rules and requirements between member states.
- EU regulators should also reflect on how to allow better capital fungibility across banks and entities.
- For same risks, same treatment approach across sectors, harmonization of rules between sectors conducting similar activities is needed. For example, differences in treatment between pension funds and life insurers/financial holdings and bank-insurers, difference in capital requirements for mortgages between insurance companies and in banks, and account competition from fintech. Further identify how to develop capital markets.

Fintech

Fraud and financial crime: How will the EU framework be developed with the creation of Anti-Money Laundering Authority? EU regulators should use technologies and AI.

Cryptoassets: Will the EU forbid anonymous crypto currencies trading like China? How are these currencies currently playing a role in financial crime.?

Digital risks, including resilience, cybercrimes, and impact of AI: How to build on current EU frameworks (DORA, AI acts) to ensure the objectives are reached?

Business conduct

EU regulators should:

- Enhance transparency and approval processes for product value.
- Allow portability of financial products (such as bank accounts and insurance).
- Provide clarity of contracts (insurance) to ensure increasing consumer protection.
- Use AI to support MiFID.

Sustainability

Competitiveness of EU Industry and agriculture: Answer the Inflation Reduction Act and Chinese subsidies in the green transition to remain competitive.

Also, address unfair competition from products from third countries that do not face the same regulatory or environmental constraints, while avoiding inflation or scarcity.

Disclosures and greenwashing: Regulators should balance disclosures and audits while avoiding the administrative burden.

Carbon market and emission market development: Build on the new certification regulation to create a market.

Role of central banks, national banks, and development banks in the green economy: How green should their balance sheet be? How should assistance to third countries be provided?

CFA Society Portugal Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Finfluencers		Financial education		
Priority II					Promote EU-wide action to foster risk-return aware decision making by future beneficiaries
Priority III				Need to balance SFDR disclosure quality with burden	

Resiliency of Capital Markets

Finfluencers

Finfluencers could provide a channel to promote financial education and reach new audiences. But oversight should be enforced to protect retail investors from fraud and misrepresentation.

Fintech

AI

EU needs to ensure there are accountability circuits, mitigation plans, and oversight on critical decision-making involving AI. But there may be a temptation to overregulate. This may hinder innovation and divert investment elsewhere. Regulation should be kept at a minimum to ensure accountability, mitigation, and investor protection, avoiding excessive bureaucracy and gold-plating.

Business conduct

Financial education

Portugal ranks second to last in the EU in financial literacy, according to a recent study by the Bruegel Group. CFA Society Portugal has been putting in many efforts to mitigate this shortcoming, in collaboration with local institutions and regulators. Thus, improving financial education will be a priority of CFA Society Portugal when it comes to the blueprint. Including the subject in local school curricula would be of the utmost importance but has faced resistance, namely political. Action at an EU level would provide an invaluable incentive to achieve the goal of promoting financial education and including it in school curricula, not only in Portugal, but in other EU countries.

Sustainability

SFDR

EU regulation should balance the quality and usefulness of SFDR disclosure while limiting the burden on asset managers and issuers. Excessive burden may drive smaller asset managers out of the market, thus reducing the choices available to retail investors.

Pensions

Pension reforms

EU-wide action is needed to improve financial literacy and ensure pillar II DC and pillar III beneficiaries duly incorporate risk – return considerations in their decisions. In countries like Portugal, reliance on a Public Pension System (whose sustainability is questionable) is quite heavy, reducing the incentive to save and invest. Work needs to be done to assist future beneficiaries in making informed investment decisions around pension planning.

CFA Society Greece Blueprint for the Next EU Legislative Period

Themes and Subtopics

Priority I	**Resiliency CM**	**Fintech**	**Business Conduct**	**Sustainability**	**Other**
	Capital Markets Union Finfluencers	Robo-advisors AI deployment	AI and ethics Financial education	Reliability and comparability of disclosures	Lack of saving capacity and culture Increase women's participation rate
Priority II	**Resiliency CM**	**Fintech**	**Business Conduct**	**Sustainability**	**Pensions**
	Unified Risk model and return metrics for funds	MiCA expansion	MiFID II certification of training of investment professionals (waiver for CFA charterholders)	Increased regulatory burden Interoperability of disclosure standards	Financial literacy will improve culture of saving
Priority III	**Resiliency CM**	**Fintech**	**Business Conduct**	**Sustainability**	**Pensions**
	Need for standardization to prevent mis-selling	Gamification Cloud and data security	Value for Money	Higher standards needed for green bonds	Higher standards needed for green bonds

Resiliency of Capital Markets

EU capital markets

A revival effort has been made by EU member states on the CMU and empowering ESMA in a supervisory role.

The CMU has not been progressing as intended. There is a need to accelerate the union through decisive measures aiming to tackle the market fragmentation that weighs on depth and liquidity. Diversify the funding structure of the economy away from bank debt. Increase cross-border flow and reduce home bias. Cultivate an equity culture among retail investors to unlock savings currently held in bank deposits. Foster the development of pan-EU venture capital/private equity funds to accelerate cross-border innovation and growth. And serve as a springboard for the growth of the capital markets.

In Greece, investment holding vehicles from Greek corporations are being established in investor-friendly (from a tax and corporate law perspective) jurisdictions in the EU to raise their visibility and enhance equity raising prospects.

Momentum in sustainable finance could progress CMU.

Looking at the US model, a real CMU would call for a unified supervisory authority with a single rulebook and the proliferation of cross-border exchanges and market infrastructures (trading, clearing, and settlement) to foster liquidity, depth, and activity.

Strong CMU will help companies raise capital and drive green transition and digital transformation.

Impact of AI on asset management

AI offers plenty of tools helpful for the efficiency of markets. But actions that manipulate the market or mislead investors should be prevented. At this stage, it is too early to fully adapt AI in asset management decisions.

Finfluencers

A common definition of an investment recommendation would coordinate international action against finfluencers.

An informative and engaging campaign (sponsored by regulators and investment associations) on social media would alert younger investors of the risks of investing on the advice of finfluencers. The campaign could form part of a broader campaign that aims to promote financial literacy.

The Greek supervisory authority (in line with ESMA) has issued a warning against the posting of investment recommendations on social media, highlighting it could result in criminal sanctions.

Fintech

AI

The models are very complex, and the principles are unclear. Performance attribution becomes difficult due to the black box character of the system. Thanks to AI, models are accessible to a large audience. But this could lead to systematic crashes. The key lies in ensuring data integrity and sufficiency in AI model training.

There is also a concern that these automated AI decisions may be biased or inaccurate.

AI systems may produce unfair or inconsistent results due to their lack of understanding of human context and ethical considerations.

AI can be used for malicious purposes, such as insider trading or money laundering, leading to issues of privacy in data management.

The use of AI in the financial sector holds immense potential. But ethical considerations must be addressed to ensure responsible implementation. One primary concern lies in bias and discrimination. AI algorithms can perpetuate existing biases present in the data they're trained on. This can lead to unfair treatment for specific customer groups, impacting areas such as loan approvals, credit scoring, and investment recommendations.

The financial sector heavily relies on handling sensitive customer data. Robust data security measures are crucial to prevent breaches and unauthorized access. Additionally, concerns regarding how AI systems collect, store, and utilize customer data necessitate careful attention.

Automation through AI also carries the potential for job displacement within the financial industry.

To address these concerns, a comprehensive approach is necessary:

- Data Governance and Transparency: Financial institutions must implement strong data governance practices. This ensures data quality, minimizes bias, and effectively manages data privacy. Transparency regarding AI usage is crucial.
- Regulation and Standards: Clear regulatory frameworks and industry standards are vital to guide the ethical development and deployment of AI in finance. This could involve continuous mandatory training for investment

professionals and for investors. A minimum level of technological literacy may be required. Equipping them with the skills to work alongside AI systems and address potential job displacement is essential.

By proactively addressing these ethical considerations and fostering a culture of responsible AI development, the financial sector can maximize AI's potential. This translates to benefits such as greater efficiency, improved risk management, and the ability to deliver personalized financial services.

MiCA

The new EU regulation adopts guidelines for cryptoasset service providers, which provides clarity for traditional asset management firms wanting to get involved in crypto investing. Before MiCA, each application procedure had to follow local laws and requirements. But after MiCA every local capital market commission must adopt the new uniform rules of MiCA which is positive for the digital asset space.

Business conduct

Retail investment strategy

A unified method for reporting risk and return metrics is needed. Currently, each fund reports using similar yet varying methods, creating inconsistency. A single, standardized model would provide clarity and comparability.

Standardization of presentation is helping investors to understand and choose an investment based on various criteria that are easily comparable.

Annual cost statements are not attracting investors. The full representation of a yearly charge without considering the returns might prevent an investor from taking up the cost of professional advice and seeking to trade individually on zero-cost platforms. It lacks transparency as the cost is already represented in trade slips and cash flow statements in quarterly or monthly statements and agreed upon with all investors beforehand.

Client categorization is a major issue for retail investors. Many investors are now considered professionals. However, a large portion, mainly the more conservative ones with fewer annual transactions, still lacks access to many investment options. This is especially true within fixed income, which suits them best.

There are enough programs for the training of investment professionals. The issue is how willing are these professionals to train and correctly inform the clients.

The current Retail Investment Strategy proposal doesn't directly introduce mandatory certifications. It emphasizes the need for stronger knowledge and competence among investment professionals. Increased focus on training certification could result in several benefits:

- Standardized Knowledge: Certification could ensure a baseline level of knowledge and competence across investment professionals in the EU.
- Consumer Protection: Stronger training verification could enhance investor protection by ensuring professionals understand their suitability obligations and ethical considerations.
- Market Credibility: Formalized training programs could boost public confidence in the financial services industry within the EU.
- Efficient Compliance: Standardized certifications might streamline compliance processes for firms.

While there are some cost considerations, the mutual recognition between all states would promote the overall market.

Implementing a standardized certification system alongside continuous professional development across the EU would involve significant costs and administrative efforts. However, public confidence could potentially lead to increased investment activity and market stability.

Value for money

Several measures can be introduced to help investors get value for money from their investments, more specifically:

- Enhanced Transparency and Disclosure Requirements: Requiring clear and concise information on product fees, charges, and performance history.
- Standardization of Key Metrics: Standardizing key performance metrics for different investment products would allow for easier comparison and better understanding of potential returns versus costs.
- Fiduciary Duty for Advisors: Strengthening the fiduciary duty of financial advisors who recommend investment products, ensuring they prioritize the client's best interests and suitability.
- Financial Literacy Initiatives: Promoting financial literacy initiatives to equip investors in the EU market with the knowledge and skills necessary to make informed investment decisions.

The European Commission's proposal for manufacturers to establish a pricing process that identifies and quantifies all costs and charges represents a significant stride towards this goal. This requirement would compel manufacturers to disclose the true cost of their investment products. It could lead to improved cost-effectiveness as manufacturers might be driven to optimize processes and potentially lower fees, benefiting investors.

This proposal comes with challenges. The complexity of implementing a standardized cost breakdown framework across a wide array of investment products could prove to be intricate. Manufacturers might also face an increased administrative burden due to the additional reporting requirements. Plus, focusing solely on costs might not fully capture the complete spectrum of value for investors, as product features, performance history, and risk profile are also crucial factors.

The proposed requirements mark a positive advancement. But it is essential to strike a balance between achieving transparency and ensuring practical implementation.

Mis-selling

- Required information to be provided to potential clients should be very informative and accurate based on specific standards, such as the CFA Institute Global Investment Performance Standards (GIPS).

Financial education

Elementary and secondary schools should add in their curriculum the basic principles of economic and financial knowledge.

Sustainability

SFDR

Articles 8 and 9 have been largely used as a labelling scheme. It suggests the need to establish product categories (using investment strategy as a gauge) to enable better comparability.

Limited availability and inconsistency of data across resources (scope 3 emissions) and absence of guidance on applicable methodologies and frameworks/approaches raise questions on the reliability and comparability of the disclosed information. The capabilities of AI could be harnessed to screen and evaluate data disclosures with the aim of creating a digital data bank.

Limited clarity on the interaction with other pieces of the broader EU sustainable finance legislation. A comprehensive mapping of the inter-linkages would promote understanding and indicate areas for potential streamlining.

Lack of interoperability with International Sustainability Standards Board standards and alignment with the Task Force on Climate-related Financial Disclosures framework, which has already been widely implemented on a voluntary basis, would create duplication.

Sustainability reporting

Harmonization in an international context is needed.

The double materiality approach raises the bar on sustainability reporting. Around implementation, it raises questions of how impact materiality would be assessed, and how thresholds would be determined given the non-financial nature of the impact.

Sustainability-linked bonds

There is a need to tighten documentation standards (including disclosure requirements) for sustainability-linked bonds. It will ensure that the proceeds of such bonds credibly promote decarbonization activities that are aligned with the Paris Agreement climate goal (across all scopes of emissions).

Multiple voting rights

Not a good corporate governance practice.

Engagement with shareholders and stakeholders

A lot of debt holders already engage with companies (no voting does not equal no engaging).

Shareholders and stakeholders take a collective approach to engage with the relevant companies affected by the same issue. Hence, collective engagement by the companies that face the same issue would be the most resource efficient. And it would help promote best practices and leading industry standards.

If debt risk encompasses ESG matters, there is scope for debtholders to push for conditions and disclosures on ESG and for engaging with issuers alongside equity investors.

Green bonds

A debate should be held on whether transition plans be encouraged or become mandatory.

It largely depends on whether the standard offers improvements over existing market-driven standards. The focus is on providing a standardized framework for impact reporting. Another key factor is making the allocation of proceeds conditional on achieving those impacts. However, such standardized framework is yet to be introduced.

Pensions

PEPP

The basic PEPP product is designed as a Pillar 3 voluntary pension scheme. It offers supplementary income to existing national/govt. pension regimes (Pillar 1) and occupational pension plans (Pillar 2). This will be an alternative solution to existent DC plans and unit linked products, which do not offer guaranteed returns and policyholders bear investment risk. Transition from DC to DB plans is expected to further progress. And PEPPs are expected to contribute and accelerate the transition. But primary drivers for this transition are the prevailing interest rate environment and the negative duration gap, which makes the DB plans unaffordable to maintain in the EU.

The main issues of PEPP are taxation and portability across the EU. Member states are encouraged to give PEPPs the most favorable tax treatment across national Personal Pension Products. But this does not ensure a uniform and consistent treatment across EU countries. Another issue relates to comparability between PEPPs and PRIIPs regarding expenses/costs and risk classes.

Pension reforms

The main challenges are the limited penetration to population groups that do not save enough and fail to understand the importance of saving for retirement. This is in line with the need to promote financial literacy to younger cohorts. In many countries, saving capacity is very limited due to very low salaries, long-term tax incentives, and very low participation in capital markets investing for individual investors. Initiating such incentives would benefit several other economic sectors, such as insurance companies, asset management, and capital markets.

Another area of focus is the persistent savings gap and the fact that the old age dependency ratio is expected to double between 2023 and 2080 (people aged => 65 years vs. those aged – 20 – 25 years), based on a recent study by Insurance Europe. Pensions should be placed higher in the EU political agenda as individuals and especially the younger population are asked to take higher responsibility for future retirement income. Potential reforms would be to increase women's employment participation rate. Enhance the multi-pillar pension systems. Promote financial literacy and education. And promote digitalization in pensions and respective services.

CFA Society Denmark Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Finfluencers	Framework for AI		Double materiality Multiple Voting Rights	
Priority II	Financial literacy	Gamification	Transparency in AI decision making	EU green bond standard	PEPP
Priority III		MiCA		Voting rights	

Resiliency of Capital Markets

CFA Society Denmark supports the proposed inducement to stop undermining the provision of unbiased and fair advice, thus promoting investor interests. Also support for cooperation and harmonization of regulations across EU member states for a more integrated capital market. And for the introduction of EU-wide regulations for finfluencers, emphasizing transparency, accountability, and clear guidelines on promotional activities.

Denmark has a high degree of financial literacy. But there's a need for relevant education programs at a young age to enhance financial literacy and empower consumers to make informed financial decisions.

Fintech

Strong need for a legislative framework for AI within the EU to address ethical, privacy, and safety concerns is needed. The society also favors EU AI Act and sees it as an approach to managing AI risks while promoting innovation.

There is a need for regulation of gamification practices in financial services to prevent manipulation, and to ensure that such practices do not lead to irresponsible investment behaviors. Areas of concern include transparency about the use of gamification, the psychological impact on investors, and ensuring that gamification does not obscure important information about financial products.

Business Conduct

Support for enhancing training standards and certification, which could lead to higher professional competency and better consumer protection is needed.

Major ethical concerns include bias in algorithms, lack of transparency in AI decision-making, and the potential for AI to be used in manipulative practices within the financial sector. These concerns can be addressed by implementing stringent transparency requirements, conducting regular audits of AI systems, and establishing clear accountability mechanisms in AI usage.

Sustainability

CFA Society Denmark supports the use of the double materiality concept. But there are concerns about the complexity and resource intensity required to accurately assess and report under this framework. This strains smaller enterprises.

There is caution about the introduction of multiple voting rights. While recognizing the potential for such measures to stabilize ownership and enhance long-term decision-making, concerns about governance and equal treatment of shareholders remain.

EU green bond standard is well received, believing it will enhance the attractiveness for investors by ensuring transparency, credibility, and comparability. Also, it can be seen as crucial for directing more capital towards sustainable projects and contributing to the EU's green transition.

Pensions

Despite its potential benefits, there are concerns about the actual uptake of PEPPs due to complexity, varying tax treatments in different EU countries, and potential cost implications for consumers. There is a need for ongoing review and adjustment of the regulatory framework to ensure that PEPPs meet their intended goals effectively.

There is a tendency to approach these issues pragmatically. Emphasize the need for products such as PEPP to be designed and implemented in ways that benefit consumers and contribute to the stability and integration of European capital markets.

CFA Society Finland Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	EU-wide financial literacy courses (web or app) Unification of client classification across the EU	Documentation and transparency of the AI-based decision making		Fiduciary duty (returns vs sustainability) Technological neutrality and inclusiveness of the EU Taxonomy	
Priority II	Transparency of fees ELTIF 2.0 development			Status clarification of green bonds lacking EU Green Bond label	
Priority III	Measures supporting competition vs cost benchmarking Regulation of finfluencers				Broadening PEPP market and sharpening features (taxation, costs, portability)

General comments

- Compared to other regions, regulation is playing an increasingly important role in capital allocation in Europe. Getting regulation right is of utmost importance for the economic success and well-being of Europe.
- Sustainability regulation is one of the central pillars of EU capital regulation as Europe advances on its journey towards a Net Zero economy. Inclusive, fair, technologically neutral, and competitive access to capital is essential for sustaining the competitiveness of the European economy.
- As regulation dominates the minds of asset management professionals, it seems that fiduciary duty is being

deprioritized. Emphasizing the importance of fiduciary duty towards asset owners is viewed as one of the highest priorities for regulators, especially during times of rapid regulatory changes.

- The CMU could benefit from underutilized EU-wide products such as PEPP and ELTIF. The success of UCITS funds demonstrates that appropriate regulation could boost the adoption of these products.
- The CMU would also benefit from the homogeneous localization of EU-level regulation. Different national approaches to EU regulation drive capital away from countries with conservative approaches to those with more liberal approaches. As a result, competition across the EU is being distorted.Financial education remains high on the agenda. The understanding of financial products is perceived as the major issue that needs to be addressed.

Resiliency of Capital Markets

Insolvency legislation

The harmonization of insolvency procedures across the EU, based on the universal principles of capital structure is essential. Currently, creditors must contend with legal ambiguity among instruments of the same seniority issued in different countries. This hinders cross-country investment and drives issuances towards countries with creditor-friendly legal environments. Countries with creditor-unfriendly legal environments, such as Finland, are perceived as inherently riskier. This perception translates into a higher cost of financing, especially when cross-country investors are involved. An EU-wide pre-packaged insolvency procedure would be a welcome development that could accelerate the refinancing of businesses, decrease frictional costs, and remove legal ambiguity for cross-country investors.

ELTIFs

ELTIF 2.0 could provide access to long-term asset classes. With the correct alignment of interests among the parties involved (such as returns, low turnover, and costs), it can be a very attractive product. It would offer exposure to asset classes previously accessible only to large institutional clients (such as infrastructure and royalties). Diversification within the fund would allow access to multiple asset classes and providers through the same fund. ELTIF should be able to mobilize funds for long-term projects within the EU.

Inducements

The premise of the RIS is that investment product fees are too high in Europe and that clients harbor widespread suspicions of unfair treatment by the financial industry. This may have deterred many European retail investors from participating in the markets. The CMU initiative, with its ambitious targets for directing capital flows into sustainable investments from the public, necessitates a change in this perception.

The RIS is a compromise, leaving tied advice out of the scope of a ban on retrocessions. But the proposal to prohibit retrocessions for execution-only clients is still a positive step, and CFA Institute should encourage EU policymakers to endorse this proposal. A considerable share of clients can and will invest without advice, and they should not be compelled to pay for advice and distribution fees. While advice can be beneficial, it should more often be based on an independent basis rather than the currently typical bundling into investment product fees.

Empirically, fund fees continue to be significantly higher in Europe compared with the United States. Both markets boast plenty of low-cost index products (open-ended and ETFs), creating a much broader gap in Europe between the fees of active captive products and index products available for execution-only clients. Approximately 27% of European fund assets are in index products, compared with 50% in the United States.

Finfluencers

Everyone agrees that finfluencers should be regulated. Till now, they have been treated within the existing regulatory framework. However, awareness of regulation among influencers seems to remain low. One potential solution could be a requirement for social media platforms to inform finfluencers about applicable regulations and to collect consents confirming their understanding and acceptance of responsibility. Subsequently, local Financial Services Authority (FSA) could maintain a registry of finfluencers. This should enhance the finfluencers' understanding of their responsibilities and make it easier for content consumers to verify the legitimacy of an influencer through the FSA registry.

Fintech

AI

Within the advice process, often referred to as "robo-advice," the use of AI is likely to become prevalent. But regulations should impose fairly strict boundaries on the liberties granted to an AI-robot to interpret a client's needs from a conversation or text into investment recommendations. Although there are numerous fruitful opportunities for employing AI in this process, the analysis of each client's appetite for risk and ability to bear risk should remain a process. And these processes should be well-documented, where each decision can be explained afterwards, rather than being attributed to a "black box" algorithm.

Business Conduct

Retail investment strategy

The classification of clients into professional clients should be standardized across the EU. The Finnish FSA has been more restrictive than its counterparts in other countries. This is leading to an uneven playing field and pushing capital flows towards countries with more liberal categorization.

Value for money

The proposal for fee benchmarking appears to be fraught with challenges.

- How would ESMA calculate and set fee averages and ranges that should serve as benchmarks?
- What would be the basis for categorization?
- Would the ranges be European-wide or locally adjusted?
- How would active and passive products be classified and compared?

As a proposal, CFA Institute could assemble a group of experts to propose potential solutions especially for benchmarking that would reflect empirical realities, such as the investment product market is not fully European but has local nuances.

The popularity of index products continues to grow in Europe. As investors transition from expensive active investment products to more affordable index products, this shift alone should lead to a reduction in the average fees paid by investors.

Cost benchmarking will affect expensive active products and may reduce competition among active managers. Small active managers will be hit the hardest due to a higher cost base compared to larger active managers. Some active products that can justify higher fees might cease to exist. This could penalize managers for earning market-beating returns.

Measures that focus on increasing competition among active products are much more attractive compared to fee benchmarking. For example, simplifying investors' access to active products across the EU could bolster competition and promote the unification of the European capital markets.

Financial education

Understanding of financial products, especially the exotic ones, by retail investors remains an important hurdle. Investors need tools and checks to assess the underlying assets used in the financial products that are being sold to make informed decisions. Derivatives deserve special focus in this respect since they are poorly understood by the average investor.

We see financial literacy as one of the cornerstones on the way towards the CMU.

Financial education should start early. Introductory courses on the positive role of capital markets might be introduced already in schools under the EU brand. It would be a great way for children to get acquainted with major European capital market institutions and learn the basics about investments, pensions, and so on.

Equally accessible general education has proved to produce great results in Finland. The same principles could be applied to EU-wide financial education within primary and secondary education. Homogeneous financial literacy content introduced across the EU would ensure that students receive similar, high-quality information in the most efficient way.

Games and apps as financial education tools:

- Kids and teenagers spend a lot of their time playing games and consuming video and audio content on various electronic devices.
- The popularity of these channels could be used to increase financial literacy among these groups.
- An EU-wide selection of apps and games, curated for targeted age groups and translated into local languages, can be very beneficial to grab the attention of otherwise hard-to-reach groups.
- Borrowing from the game experience of the most popular games (e.g., prizes, colorful characters, rankings, online interactions) to maintain user engagement could be a worthwhile strategy to consider.

Sustainability

The EU sustainability legislation aims to tackle one of humanity's most pressing problems. But in its current form, the legislation introduces major ambiguity and subjectivity that businesses and investors must navigate. In the worst-case scenario, it could have the unintended effect of slowing down and hindering green investments.

The EU taxonomy is a critical piece of legislation as it affects various aspects of the markets. If it is too static and rigid, it could lead to outcomes contrary to its intentions. Risk-averse companies and investors may be unwilling to take the risk of misclassification. This could result in a significant reduction in the availability of green financing.

SFDR

For businesses, the SFDR represents a significant short-term milestone to achieve. We have identified the double materiality approach and EU taxonomy alignment as two central issues that raise the most questions locally.

Sustainability reporting

Double materiality introduces the impact assessment of externalities produced by the business. This impact assessment introduces major ambiguity for companies and auditors because it is challenging to assess numerically. An issue might be considered materially impactful by one company but not by another. Financial materiality does not encounter this problem, as it is based on established financial materiality thresholds.

The solution to the ambiguity of impact assessment lies in the quantification of impact materiality through specific guidelines, or by providing examples of negative financial consequences (for example, fines) borne by companies in similar situations.

EU taxonomy

Most companies are expected to contribute to tackling climate change. But the EU taxonomy introduces major ambiguity for companies whose activities are not explicitly listed within the regulations. Companies eager to demonstrate their commitment to climate change mitigation will have to accept the risk of misclassifying their activities as EU taxonomy aligned and eligible. Achieving eligibility is a target for many companies, as alignment alone does not offer any inherent benefits.

Depending on a company's stance on the risk of misclassification and the legal consequences, they may choose to report non-eligibility under the EU taxonomy or take the risk and report alignment. Thus, addressing the classification challenges to aid companies' navigation of the EU taxonomy is an urgent issue.

The technological neutrality and relevance of the EU taxonomy are also seen as crucial. Maintaining an exhaustive list of industries and technologies considered "green" is nearly impossible, especially given the rapid pace of technological change. Mechanisms that allow technologies to qualify as green based on certain target parameters (reduction in CO_2 emissions compared to other alternatives) should be considered.

Reducing the ambiguity of the EU taxonomy and increasing technological inclusiveness are pressing issues. Unless addressed, they have the potential to significantly slow down the flow of capital towards climate-friendly technologies.

Green bonds

The introduction of EU green bonds will have profound effects on the green bond markets. Existing green bonds, which lack an EU label, may lose appeal due to the inherent risk of greenwashing.

EU green bond regulation is expected to shrink the green bond market if companies align their green bond frameworks and subsequent green bond issuances with the EU taxonomy.

Companies might opt for sustainability-linked instruments as a more reliable framework for both companies and investors. EU green bonds risk becoming another underutilized pan-European financial product.

Pensions

PEPP

The PEPP has the potential to become another successful European product, akin to UCITS funds. But it currently lacks attractive propositions for a broad audience.

Lack of traction can be partly attributed to the absence of national tax benefits and uncertainties linked to the overhaul of existing pension systems.

In countries with well-funded pension systems, such as Finland, the value proposition of PEPP should be assessed against existing pension systems. PEPP solutions ought to offer clear additional value atop existing pension arrangements.

While UCITS funds share some advantages with PEPP, the latter should feature distinct additional benefits.

Tax incentives during the accumulation stage appear to be crucial for sparking interest in the product. But they might present political challenges when being introduced.

To date, PEPP has primarily targeted mobile workers and entrepreneurs. To gain wider traction, the product's target audience should be broadened to include the general public.

CFA Society Ireland Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Financial Education CMU ELTIF Liquidity	AI and EU AI Act Data Transparency		SFDR Reporting Data Consistency Onerous Regulation	Onerous Regulation in ESG
Priority II	Fund ownership Clearing	MiCA Finfluencers	AI and Ethics MiFID	Engagement across the sector	PEPP
Priority III	Mis-selling	Gamification Cloud and Data Security	Value for Money	Green bonds	

Resiliency of Capital Markets

The March 2024 statement of the Eurogroup on the future of the CMU identified three priority areas for action. Measures are necessary to improve the functioning of European capital markets in these areas:

A. **Architecture:** Develop a competitive, streamlined, and smart regulatory system. This will allow funds to be better channeled into innovative EU businesses, with greater liquidity, risk taking, and risk sharing together with higher resilience and financial stability.

B. **Business:** Ensure better access to private funding for EU businesses to invest, innovate, and grow in the EU.

C. **Citizens:** Create better opportunities for EU citizens to accumulate wealth and improve financial security. This can be achieved by increasing direct and indirect retail participation through access to profitable investment opportunities.

To support capital market resiliency, CFA Society Ireland highlights a few of these priorities that are needed to grow a more diverse and stable asset management sector.

Better capital flows are attracting companies de-listing from European markets to list in the United States. To increase the attractiveness of European markets to investors, a more efficient financial sector with broader funding sources is required. This could be achieved by:

1) Enhancing integrated market infrastructure in the EU. For example, stock exchanges improving consolidated tapes (this could also aid liquidity calculations).

2) Harmonizing listing requirements across European exchanges to ensure lower costs and easier access routes for companies to list.

3) Increasing the attractiveness of capital market funding for all sized companies by offering targeted incentives. For example, facilitating the path for companies of all sizes to raise capital through public listings. Additionally, CFA Institute previously suggested a solution to segregate and nurture new, small firms on a venture exchange that has lighter regulation.

4) Converging national company laws, tax, and accounting regimes and insolvency frameworks to reduce market fragmentation and allow cross border comparability of company information. This enhances an efficient market for cross border investors to use independent research based on standardized disclosures, advancing coverage of companies throughout the

economic spectrum (including SMEs). This also reduces asset valuation risks and improves market stability.

5) Reducing the compliance and the regulatory burden for companies to minimize their operating costs and improve the EU's competitiveness as a financial hub. Ongoing monitoring of the impact of regulatory measures on smaller firms with fewer economic resources and lower capacity to adapt is needed.

The United States is moving to a t+1 settlement. This needs to be investigated in Europe to level the playing field for investors and to prevent fund flows and cash management distortions.

An increase in retail participation, a goal of the CMU, will reduce the current overreliance on bank funding in the EU, leaving it open to banking crises. Retail participation can be encouraged by increasing the availability of investment products to offer all citizens attractive options for long-term savings in their pension schemes.

ELTIFs

ELTIF is for all types of investors. It favors long-term investments in European non-listed companies and in long-term assets such as real estate and infrastructure projects.

In January 2024, the new ELTIF 2.0 regulation came into force with the aim of unlocking its potential to become a product of choice for investors, particularly on the retail side.

It is important that the accompanying technical standards align with wider trends and best practices in liquidity management (see ESMA, Financial Stability Board liquidity tools) to streamline regulatory requirements, while preserving investor protection. Promoting this niche product responsibly will democratize pension and retail investors' access to private equity, private debt funds, infrastructure, and real estate projects.

This is needed to grow a diversified and resilient capital market, according to Pitchbook 2023 data. Venture capital (VC) raised in Europe was only 10% of the global VC fundraising market, lagging both Asia and the United States, which each had over 40% of market share. ELITF allows the creation of pooled investments into several emerging SMEs that would benefit investors and pension plans from better risk diversification.

Finfluencers

Gabriel Makhlouf, Governor of the Central Bank of Ireland, noted that crypto remains characterized by aggressive advertising. This sometimes leads to false or this sometimes leads to false or misleading information, as finfluencers often promote cryptocurrency investments without disclosing that they are being remunerated for it while not disclosing the fact they are being paid. This rising role of finfluencers is not solely linked to the crypto space. A heightened focus on finfluencers and their fees/compensation is crucial as regulators seek to navigate financial markets, which are increasingly driven by social media.

Fintech

AI

The EU AI Act is a landmark development. It is the first major act in the world to regulate AI. Given the capabilities and principles of AI are continuously evolving, the regulatory and legislative response should also be evolving.

ChatGPT registered over 1.5 billion in website traffic per month in 2023, less than one year after its official launch in late 2022. This indicates the rapidly increasing demand for AI. Indeed, ChatGPT reached 1 million users within just 5 days. For comparison, more mainstream brands such as Netflix and X took 3.5 years and 2 years, respectively, to reach the same milestone. This reinforces the remarkable demand for AI capabilities in the past couple of years.

Large Language Model models are trained on billions of large-scale training data points. They are also trained to avoid discussions about violence, hate speech, and illegal activities. But it does not mean that the models cannot generate such content, which they may have learned in the training process. This is just one of a number of key ethical challenges in the adaptation of AI. Indeed, bias is undoubtedly one of the primary weaknesses and challenges of AI, on which regulators and lawmakers are heavily focused.

Aside from bias, data transparency is a crucial aspect of AI which needs to be monitored. Several media outlets have highlighted where and when AI has been used to create or publish content. This is a key part of the EU Act. According to the act, AI-generated text that is meant to inform the public on important matters must be clearly labeled. For example, an article created with AI should include a note saying, “This article was created with the assistance of AI.” Transparency of AI in the investment process is a critical component for clients, investment managers, and regulators.

The Central Bank of Ireland has noted: AI has significant potential to bring positive benefits to the economy, the financial services industry, and consumers, and to help in dealing with big societal challenges. But AI systems also pose risks that can negatively impact individuals and society. The magnitude and timing of the impacts arising from AI are uncertain. AI is widely applicable across all financial services sectors. It is one of the technologies with the greatest transformative potential for the activities of entities supervised by the Central Bank. This highlights both the opportunities and challenges that AI brings to the financial world in the upcoming legislative period.

Cryptoassets

The popularity of cryptoassets has grown rapidly in recent years, much like the AI space. As a result, increased regulation is now required for the sector. Until recently, it was largely unregulated.

Like the EU AI Act, MiCA is a trend-setter, aiming to create a uniform legal framework for cryptoassets that are unregulated. In recent years, there have been a number of crypto-related financial collapses, such as cryptocurrency exchange. Lack of regulation on the sector is undoubtedly a factor in many of these cases.

The downfall of FTX was a lack of segregation between the company's assets and those of its customers. A fundamental aspect of MiCA is cryptoassets services providing a distinct and clear separation between their own assets and those of their customers.

Elizabeth McCaul, member of the supervisory board of the ECB, emphasized how FTX was a watershed moment for the sector. "The requirements for good governance and strong risk management reduce the risk of bank failures. The collapse of FTX showed what happens when firms don't meet these requirements. The regulatory framework should ensure that all cryptoassets service providers (CASPs) have sound governance and risk management."

Like AI, the crypto world is constantly evolving, and regulations drafted in 2020 will quickly feel out of date by 2024. Indeed, the European Parliament released a paper in 2023 ("Remaining regulatory challenges in digital finance and cryptoassets after MiCA," D.A. Zetzsche, R.P. Buckley, D.W. Arner, M.C. van Ek), which reinforces that MiCA should be treated as the first step in an ever-evolving regulatory landscape for the sector.

Gabriel Makhlouf, Governor of the Central Bank of Ireland, echoed these views. "Crypto is not going away soon. And the nature of the product means international coordination is needed to ensure it is regulated and supervised due to the risk it poses."

Business Conduct

Financial education

European investors need better education to optimize their asset allocation and fund selection for long-term investing to align with their risk tolerance at different life stages. A comprehensive, EU-wide financial literacy is needed. Inclusion and resilience strategies would encourage more thoughtful pension planning by citizens from an early age. This would lead to a more diversified, long-term European investor base to support capital market resiliency.

The European Commission is progressing the financial literacy initiative (see link here). But more is needed. For example, an EU-wide financial literacy school course could include the positive role of capital markets in society and for pension/investment choices. Support for personal and occupational pension products could be achieved by providing examples as part of this proposed compulsory financial literacy school curriculum.

Sustainability

SFDR

Significant feedback to the EU Commission as part of the consultation on SFDR 2.0. Locally key issues include:

- Lack of clarity of minimum requirements.
- Regulations have become a de facto labelling regime. But the difference in approach within articles 8 and 9 is major. It impacts the core tenet of level playing field.
- Lack of data from underlying companies remains a material challenge in some strategies. CSRD will improve this, maintaining high levels of coverage for developing markets.
- Additional concerns with SDR in the UK are the investment strategies. They are housed in fund products domiciled in different jurisdictions, which will lead to a challenge for investors on clarity. They may invest in the UK version of a strategy and the articles 8 and 9 version as well.
- A general perception in the market is that in articles 8 and 9, funds are constrained, and hence this will negatively impact performance versus non-ESG funds. There are many flavors of article 8 funds in particular. And there is a lack of clarity on minimum requirements. Guidance was received last year that funds following a PAB benchmark can retain their article 9 classification (even though all underlying holdings aren't sustainable investments per se). This caused a lot of confusion in the industry as some asset managers changed the SFDR classification from 9 to 8 before this additional guidance was received.

- Data inconsistencies between the main ESG data providers. For example, there are large differences between the United Nations Global Compact (UNGC) breach list from MSCI and sustainability analytics. This comes down to differing qualitative interpretations of the UNGC principles.

Engagement with shareholders and stakeholders

Encourage more coordination between asset managers to use a joint voice to drive positive change at underlying companies.

Pensions

PEPP

There is a long-running belief in the European Commission that lack of portability of pensions is a major barrier to the free movement of people in Europe.

The PEPP was initiated as a solution to this problem. The goal was to allow people to have all their pensions, irrespective of what country they worked in, within one plan. But the reality is different. All EU countries have different tax treatments for pensions. This applies especially to relief or incentives and the taxation of benefits. They also have different rules on when benefits can be taken and in what format. As a result, people end up with individual compartments in their PEPP for each country they worked in.

In agreement with the PEPP regulations for the PEPP, the European Parliament voted for a maximum fee of 1% p.a. As it is an individual product, most providers say it cannot be developed and sold on that basis. The level of individual advice required would not be covered by the fees received.

To date, only one provider (Finax) has registered a PEPP product with EIOPA.

The PEPP appears to be a flawed product that can’t meet its objective. This is partly seen through the very low take-up by providers since its introduction. As long as individual countries set their own rules for pensions, it is difficult to see how a PEPP can work in practice.

The PEPP might function independently of the existing pension systems. But this could lead to competing post-retirement systems across Europe. The added complexity could potentially discourage more people from engaging in retirement savings.

While ESG is important, it is quite onerous for pension funds with no in-house staff to keep up to date with or comply with changing regulations.

Not just ESG, the increased regulatory focus in the sector is inevitably driving up cost.

CFA Society Croatia Blueprint for the Next EU Legislative Period

Resiliency of Capital Markets

Harmonization of laws and standards is the key

- Central and South-Eastern Europe's capital markets suffer from severe fragmentation, leading to various issues. This is the primary cause of multiple negative consequences and inefficiencies. High operational costs compared to essential business benchmarks stem from this fragmentation. Investment inflows from foreign sources into the region are slow due to market fragmentation.
- Domestic fundraising for companies is less appealing due to the fragmented nature of the markets.
- Development of products and technologies faces limitations due to market fragmentation.

Need to cut down on administrative requirements to make it easier to sell investment products.

Need to reconsider the ban of US ETFs.

Fintech

MiCA

Ensuring equitable conditions for the selling, promotion, and trading of cryptoassets alongside traditional financial instruments.

Digital euro

Enhancing the evaluation of risks linked to bank funding of the digital euro to gain deeper insights. This will also lead to addressing potential repercussions on the financial system through mitigation strategies.

Business Conduct

AI and ethics

Need to advocate for increased transparency in the utilization of AI technologies. Increasing transparency in providing investment advice through AI involves:

- **Disclosure of AI Utilization:** Communicate to investors that AI technology is being used in providing investment advice.
- **Explanation of AI Algorithms:** Provide information on the AI algorithms being utilized, including their methodologies, data sources, and risk factors considered. This helps investors understand how investment decisions are made and the factors influencing them.
- **Performance Metrics:** Share performance metrics and benchmarks to illustrate the effectiveness of AI-driven investment strategies. This includes historical performance, risk-adjusted returns, and comparisons against relevant benchmarks.
- **Risk Disclosure:** Articulate the risks associated with AI-driven investment advice, including potential algorithmic biases, model limitations, and market uncertainties. Investors should be informed about the inherent risks involved in relying on AI for investment decisions.
- **Human Intervention:** Incorporate human oversight into the AI-driven investment process to ensure accountability and mitigate potential errors or biases. Human experts can review AI-generated recommendations, assess their suitability, and intervene when necessary.
- **Regulatory Compliance:** Ensure compliance with relevant regulatory requirements governing the use of AI in investment advisory services. This includes adherence to transparency standards set forth by regulatory bodies and organizations.
- **Knowledge Acquisition:** Educate investors about the capabilities and limitations of AI in providing investment advice. Provide resources and guidance to help investors make informed decisions and understand the role of AI in their investment strategies.

Sustainability

SFDR

Harmonize reporting frameworks across EU by:

- Developing standardized reporting requirements and guidelines to ensure consistency and comparability across reporting entities.
- Providing support and guidance to reporting entities, especially SMEs. This will help them understand and comply with the reporting requirements. This includes offering training, workshops, and educational resources on sustainability reporting practices.

Pensions

PEPP

PEPP faces several key issues in the EU.

- **Fragmentation:** The EU's diverse regulatory environment and varying national pension systems contribute to fragmentation in the implementation of PEPP across member states. This fragmentation can create barriers to cross-border mobility and hinder the development of a truly pan-European pension market.
- **Sustainability and ESG Integration:** Promoting sustainability and ESG factors in pension investments is increasingly important for addressing climate change and social responsibility. But integrating ESG considerations into PEPP products while ensuring financial returns and regulatory compliance can be complex.
- **Cross-Border Mobility:** Promoting cross-border mobility of PEPP participants is essential for the success of the initiative. But differences in tax treatment exist across EU member states. Regulatory requirements vary between these states. Cultural preferences are also different. These factors can create barriers to portability. They can limit the effectiveness of PEPP as a pan-European pension solution.
- **Awareness and Uptake:** Low awareness and uptake of PEPP among consumers pose a significant challenge. Effective marketing and educational efforts are needed to raise awareness of PEPP benefits, features, and availability and to encourage participation among potential savers.

CFA Society Cyprus Blueprint for the Next EU Legislative Period

Themes and Subtopics

	Resiliency CM	Fintech	Business Conduct	Sustainability	Pensions
Priority I	Retail Investor Protection	Regulate gamification practices	Adoption of Union-wide code of conduct	Union-wide climate change education strategy	PEPP
Priority II	Union-wide financial education strategy	AI legal framework	Adoption of Union-wide minimum standards for certifications and continuing education	Double materiality concept clarification	Address pension gap and gender pensions gap
Priority III	Eliminate local market fragmentation	Cloud and data security	Address mis-selling and misinformation	EU Green Bond standard	Union-wide mandatory employer contributions

Pensions

PEPP

The PEPP can foster a transition from DB to DC. However, this evolution is anticipated to unfold gradually. It requires incentives at both the EU and member state levels to aid the shift.

The landscape of pension schemes in many EU countries has indeed been historically dominated by DB plans. These schemes have long been favored for their provision of a stable and predictable income stream to retirees, thereby offering a sense of security in an individual's post-employment years. The guaranteed income provided by DB plans is based on factors such as the individual's salary and years of service. This provides retirees with a reliable source of income throughout their retirement.

But the traditional prominence of DB schemes is facing challenges from various factors shaping the future of work and retirement planning.

Future of work

The nature of work is evolving. Freelancing and self-employment are on the rise, driven by technological advancements and changing attitudes towards work-life balance. In this new, more fluid, employment landscape, individuals may have more varied career paths with multiple employers or sources of income. This makes the fixed, employer-sponsored nature of DB plans less suited to their needs. Also, there are currently more than 27 million self-employed EU citizens that do not have access to the DB scheme and could benefit from a pension product like the PEPP.

Longevity

Increasing life expectancy is reshaping retirement planning dynamics. With people living longer, there is a growing recognition of the need for retirement savings to last for an extended period. DB plans, which provide a fixed income based on a retiree's salary and years of service, may not account for the longer retirement period.

Demographic shifts

Aging populations, in combination with declining birth rates, are putting additional strain on traditional DB pension schemes. As the ratio of retirees to active workers increases, DB plans face challenges in meeting their financial obligations. This is prompting employers and governments to shift towards DC pension arrangements. The "old-age dependency ratio"[6] is expected to increase from 35% to 60% in the next three decades.

Can PEPP drive the shift towards DC pension schemes?

A wider adoption of the PEPP will create a standardized, portable, and cost-effective pension product that can be offered across EU member states, like the 401K in the United States By providing a pan-European option for retirement savings, the PEPP could encourage individuals to opt for DC schemes, especially if they value flexibility and portability.

The PEPP could also appeal to employers who may prefer the simplicity of offering DC schemes over the long-term financial obligations associated with DB schemes. This could lead to more companies phasing out DB schemes in favor of DC options.

[6]Old-age dependency refers to the ratio of elderly individuals (typically defined as those aged 65 and above) to the working-age population (typically defined as those aged 15 to 64) within a society or a demographic group. It is a demographic indicator that measures the extent to which a population relies on the economically active segment to support retirees and elderly individuals who are no longer part of the workforce. The old-age dependency ratio is calculated by dividing the number of elderly individuals by the number of working-age individuals and multiplying the result by 100 to express it as a percentage. A higher old-age dependency ratio indicates a larger proportion of elderly individuals relative to the working-age population, which can have implications for social security systems, healthcare services, and pension schemes.

But the extent to which PEPP will lead to a consistent shift from DB to DC schemes will depend on various factors. A few of them are regulatory frameworks, consumer preferences, and the effectiveness of marketing and education campaigns promoting the benefits of the PEPP. Also, cultural and historical factors within each EU member state may influence the adoption of DC schemes.

In conclusion, while PEPP has the potential to contribute to a shift from DB to DC schemes in the EU, its impact may vary across different countries and regions. The impact will depend on a range of economic, social, and regulatory factors.

What are the issues/challenges of the PEPP? Is this a well-designed product?

The PEPP represents a major advancement in the realm of European pension provision. The aim is to overcome key challenges inherent in the existing pension landscape. PEPP has an edge on the IORP II Directive, which failed to effectively aid cross-border activities among workplace pension schemes. PEPP is a standardized and portable pension product that can be offered across EU member states.

The PEPP is specifically designed to address the fragmentation and complexity of pension regulations within the EU. It aims to provide a single regulatory framework that applies uniformly across EU countries. Moreover, PEPP introduces standardized disclosure requirements and fee structures, promoting transparency and comparability among different pension products.

Despite its potential benefits, PEPP also faces its own set of challenges.

Regulatory environment

The fragmented regulatory environment within the EU presents a significant challenge to the implementation and success of the PEPP. One of the primary objectives of PEPP is to offer a standardized pension product that can be easily accessed and understood by consumers across EU member states. But certain regulatory pension provisions vary widely among different countries.

The absence of local legislation in many EU member states faces the decumulation phase (when individuals start withdrawing funds from their pension savings). The tax treatment of PEPP adds another layer of complexity. Decumulation rules and tax regimes can significantly impact the attractiveness and viability of PEPP as a retirement savings option for consumers. The lack of clarity or consistency in these areas may deter pension providers from offering PEPP in certain markets or limit the product's appeal to consumers.

Without uniformity in regulatory standards, pension providers may face challenges in navigating the complex regulatory landscape. It is essential to ensure compliance with diverse rules and requirements and offer a consistent product experience to consumers across different countries.

Costs and fee cap

The success of PEPP lies in its ability to offer cost-effective pension solutions. The imposition of a 1% total expense cap on the Basic PEPP is indeed a key aspect of the product's design aimed at ensuring cost-effectiveness and consumer protection. While this cap helps promote affordability and transparency, it also introduces challenges, especially towards the inclusion of certain types of investments, such as private equity, which may have higher management costs. Also, the imposition of a 1% total expense cap on the Basic PEPP could deter certain providers from offering the product due to concerns about profitability and viability. This expense cap limits the amount that providers can charge for managing and administering the PEPP, potentially constraining their ability to cover costs and generate sufficient returns. As a result, providers with higher operating expenses or those offering investment options with higher management fees, such as private equity or infrastructure products, may be reluctant to offer a PEPP. The consensus amongst the industry participants is that the PEPP is tailored for fintech providers.

VAT treatment

PEPP poses challenges due to the diverse nature of providers involved, including banks, insurance firms, investment firms, and IOPRs. Each is subject to varying VAT regulations. This diversity creates competitive disparities and an uneven playing field. And adds complexity to regulatory compliance for providers operating across multiple jurisdictions.

To address these challenges, a harmonized VAT framework across PEPP providers is essential. EU-level policymakers should advocate for uniform VAT regulations among member states to establish consistent rules and exemptions for PEPP-related activities. This would promote fair competition, simplify compliance, and facilitate cross-border provision of PEPP services. And enhance the success and sustainability of the PEPP initiative.

Competitive landscape

PEPP competes with existing national pension products and private pension providers in the EU market. Achieving a balance between promoting competition and ensuring a level playing field for all providers is crucial for the success and sustainability of PEPP.

Whether PEPP is considered a well-designed product depends on various factors and perspectives. It addresses some key challenges in the European pension landscape and offers potential benefits such as portability, choice, and consumer protection. But its success will depend on its implementation, market acceptance, and effectiveness in delivering sustainable retirement outcomes for savers across the EU. Ongoing monitoring, evaluation, and potential refinements to the product will be necessary to address emerging issues and ensure its long-term viability.

What aspects should regulators focus on pension reforms? How can pension reforms contribute to the achievement of the CMU?

Regulators should prioritize addressing the pension gap as a fundamental aspect of pension reforms in the EU. The pension gap refers to the disparity between the income that individuals require in retirement and the income they can expect to receive from existing pension provisions. Several key factors highlight the urgency of addressing this gap.

First pension pillar can cover up to 1/3 of required income at retirement:

The inadequacy of the first pension pillar in covering retirement income needs is a pressing concern. With the first pillar typically covering only up to one-third of the required income at retirement, individuals are left with a substantial shortfall that must be addressed through supplementary pension arrangements.

Less than 1/3 of EU citizens aged 25–59 have a pension product:

The low pension coverage among EU citizens aged 25–59 underscores the need for reforms to expand access to pension products. Less than one-third of individuals in this age group have a pension product, highlighting the major portion of the population at risk of insufficient retirement savings.

SMEs with no pensions:

SMEs account for 99% of the EU economy and 50% of its employment force. Yet they often face challenges in providing adequate pension benefits to their employees. Reforms should aim to make pension provision more accessible and affordable for SMEs, ensuring that their employees are adequately covered in retirement.

Increasing old-age dependency ratio:

The projected increase in the old-age dependency ratio from 35% to 60% in the next three decades underscores the urgency of addressing the pension gap. As the proportion of retirees relative to the working-age population grows, the strain on pension systems will intensify. This highlights the importance of implementing reforms that bolster retirement savings and income security.

Low cross border activity under IORPs:

The limited cross-border operation of IORPs underscores the need for regulatory reforms to aid pension portability and mobility across EU member states. There are only 31 IORPs currently operating across borders. This shows there is significant room for improvement in enabling individuals to access pension products that suit their needs and preferences. This should be possible regardless of their country of residence or employment.

Pensions reforms and CMU

By fostering deeper capital markets integration and enhancing the efficiency and resilience of financial markets in the EU, pension reforms aimed at addressing the pension gap can contribute to the achievement of the CMU. Mandatory employer contributions to pension schemes, implemented union-wide, can play a pivotal role in achieving these objectives.

By mandating employer contributions to pension schemes across the EU, pension reforms can effectively increase the pool of investable assets within the European capital markets. These contributions represent long-term savings that are channeled into a diverse range of financial instruments. This includes equities, bonds, and other capital market instruments. And injecting long-term capital can enhance liquidity, deepen market depth, and stimulate investment activity, thereby contributing to the development and expansion of the CMU.

Focusing on mandatory pension schemes ensures a more comprehensive and widespread participation in retirement savings, which can uplift the standard of living for EU citizens. Mandatory pension schemes require employers to contribute to their employees' retirement savings, thereby helping to ensure that workers have sufficient income in retirement to maintain their standard of living. By promoting retirement savings at the workplace, these reforms can enhance financial security and reduce the risk of poverty among retirees, fostering social cohesion and economic stability across the EU.

The increased participation in mandatory pension schemes can promote financial literacy and long-term investment awareness among EU citizens. As individuals engage more actively with their retirement savings, they become more familiar with financial markets and investment opportunities. This can lead to a more informed and sophisticated investor base. This is essential for the success of the CMU in fostering a competitive and resilient financial ecosystem in the EU.

CFA Society Luxembourg Blueprint for the Next EU Legislative Period

Literature review, member and local board survey, Internal advocacy committee discussion

Need to act swiftly to counter the disaggregation of EU markets and reinforce single market promotion.

General comments:

1. Need more regulations and fewer directives. A lot of stakeholders, including regulators and supervisors, launched a call for simplification, pragmatism, reduction of complexity, regulatory uncertainty, gold-plating, and fragmentation.
2. Finalize the Banking Union and move faster in building the CMU to strengthen the competitiveness of the European economy. Need more than regulation to achieve deep and efficient capital markets across the EU. Address financial literacy, promote capital markets as something positive, tax consistency, and tax incentives. Solve several other issues, such as harmonization of company laws and insolvency laws.
3. There is a lot of resistance in the United States to the implementation of Basel IV. The current package goes further than the Basel proposal. The average capital requirements of US banks appear to be more than 2% points lower than those of the EU banks.
4. New regulations are not an objective. With good supervision, the objectives should be better service and protection of the consumer/investor. A safe and efficient financial sector to support the competitiveness of our economy and the transition towards a more sustainable are needed world.

A safe but also more efficient financial sector is needed. And further progress on the CMU is required if the European economy wants to remain competitive with the United States.

Resiliency of Capital Markets

The concept of CMU is seen differently depending on the group of stakeholders. Individual investors see it as an opportunity for more competition and higher access to diversified products at competitive pricing. But both members and a few market institutions have a critical approach to developing EU regulation and implementation of CMU, because positive impacts are taking too long to improve, especially on cross-border markets so important for Luxembourg's financial place.

Smaller financial institutions are often afraid of increased market competition. Larger foreign institutions with better economies of scale are leading to the price war and losing market shares. CMU seen as a network of markets might seem more or less attractive for local, smaller economies. A single market coming from the merged national markets will favor one or two biggest markets. Local markets may have much more potential to become a source of capital for local companies (a hub for SME) than one single pan-European market. Local retail investors might be more interested in investing in the local capital market/ stock exchange. But creating one pan-European market is also key, or ELTIF 2.0 should be largely promoted.

ELTIF

To promote growth in this niche market, it is essential to lower the cost of capital through tax incentives and other relief measures. Additionally, increasing the pace and momentum of new fund launches—considering that Luxembourg currently hosts around 30% of existing funds—will help address investor expectations and risk concerns.

Members are supportive of the idea. But see obstacles:

- Differences between national markets or contradicting national interests.
- Wrong or poor implementation of EU regulations (with large discretionary power of regulators and supervisors).
- Lack of pan-European supervision.

EU Supervision

Switching to a single pan-European supervisor/regulator would increase the convergence of local markets and promote CMU advances more easily. But there are fears that one European supervision agency may represent the interests of the biggest markets in the EU, and might lead to challenges in solving problems and fighting fraud on the local level.

Inducements

Maintain inducements to financial advisors to ensure product diversity and prevent increased costs for investors.

Restrictions imposed on inducements had a major influence on Luxembourg investment funds' market. Independent fund platforms and distributors were mainly (retro) commissions- and kickback-driven. Front load fees were lower or less frequent. Imposing restrictions/ban on inducements at the EU level resulted in small distributors and investment companies losing market shares in favor of large financial and more vertical groups.

Alongside those moves and leaving Europe under/researched, large banking or insurance groups reviewed their product range and architecture, focusing on sales of their own products at the expense of external ones and open finance. This comes at a huge cost to investors.

Most interviewed members and organizations would support reviewing current EU policy on inducements for a lighter regime. The ban on inducements does not seem to contribute to the overall objective of the regulation, "to attract Europeans to the capital and insurance markets." Instead, it restricts the access of investors to useful services and has a major side effect on independent research boutiques covering SMEs.

Fiscal coordination

Advocating for harmonization efforts and fiscal coordination to achieve a CMU.

Settlement rules

Urging diversification of CCP dependency post-Brexit. ESMA needs to confirm when the t+1 settlement will apply in Europe (need a level setting otherwise it creates Funds and Treasury distortion). More integrated markets are better.

Impact of AI and sustainability in asset management

Stressing the importance of reliable data and robust regulatory oversight in integrating AI and sustainability into asset management.

Banking rules

Banking law should guarantee retail deposits from account hacking to ensure depositary duties are aligned with objectives to provide trust in the financial sector. All actors should share their part of the actions to fight cybercriminals and not let the depositors/investors left alone. This would also provide a level playing field and ensure all International Bank Account Numbers have equal value.

Investor protection

Regulators/supervisors are frequently seen as unwilling to protect the rights of individual investors. They should actively start to protect the interests of individual investors (currently sanctions, if any, are imposed after years of violation of regulations or ineffective execution of criminal regulations).

Social media/Finfluencers:

Significant emerging problems need to be addressed and regulated swiftly in line with financial education.

Majority of respondents support the need for more regulation based on in-depth analysis.

Fintech

AI

Majority of members support the need for regulating AI in finance. There are numerous ethical concerns surrounding the use of AI in finance or the impacts of AI on asset management (passive versus active), such as:

- Breach of privacy and data security.
- No liability for incorrect or unfair decisions.
- The tendency of algorithms to favor certain patterns and algorithmic manipulation of financial markets.
- Increased risk of systemic crises and bubble bursting.
- Decision-making without sufficient human supervision.
- Employment automation carries a threat to people losing their jobs.

Open finance

Ensure maximum diversification of cloud providers and transparency of data vertical value chain (cost/security).

Monitor fintech advances versus stability risks.

- Which product offering and role of crypto for/in EU retail markets (MiCA)? Strong protections are needed (better via ETF and Funds). Link with financial literacy. Needs to raise understanding (risk focus). Role of rule/principle-based regulation. Standard position of CFA Institute would be better if principles rather than rule based (Commodity Futures Trading Commission FED approval).
- ECB priority on Digital Euro versus commercial banks. Need to present impact assessment.
- AI and need for regulation. Platform and data sovereignty.

MiCA

Review and update of MiCA would be welcome (focus on retail investor protection).

Business Conduct

Review of MiFID II

Suitability and appropriateness tests are widely seen as a "pain" or gross overview of the client profile. They are sometimes unsuitable to evaluate clients (categories such as semi-pro could be useful and the professional threshold should be lower to grant access to more useful products). And have nothing to do with investor protection or choosing the right products for the clients. Easing restrictions for investors to qualify as professionals has strong support. But retail investors should have the right to be qualified as professionals based on their demand, regardless of the value of assets, experience, or formal education. But specific criteria should be met, such as mandatory training or certification.

RIS

Members are skeptical of the current impacts and requirements of RIS. They support more **transparency** broadly and as a better priority than standardization. Strong focus on costs and margin views are supported.

Members actively managing financial institutions see RIS as a benefit to strong, highly developed markets, institutions with the largest economies of scale, and a threat to **smaller markets and institutions**.

RIS theoretically forces financial institutions to offer cheaper pricing of financial products while generating additional costs on the side of investment companies. Additional obligations and administrative processes generate additional costs, which are relatively higher for smaller companies.

Current requirements for banks, investment firms, and insurance companies to provide information on costs and charges, including third-party payments and performance, are seen as appropriate. Banks are not interested in reading long pages of information. And they also complain about the quantity of paperwork they need to sign. Retail investors explain that further increasing paperwork is confrontational and causes less and less retail investors to even read it. A simple one-pager could make retail investors better read and understand them.

Value for money

Value for money creates a cost-centric, not client-centric approach. Members say that the cheapest product is not always better and the most suitable for clients' needs. This is an artificial notion prone to cliff effect.

Common benchmarks may not be relevant to:

- Theoretically similar, but not the same products or run by different companies by size and markets.
- Same products under different tax regimes.

Financial education

Practically all members and organizations see lack of financial education as a major problem for the capital market. Lack of financial knowledge is leading to fraud and preventing growth of the market. It is also presented as a reason for growing restrictions related to investing. Wide financial education of the society is definitely the most effective measure against fraud and fight against mis-selling. EU activities to support financial education are strongly supported. Mandatory education at the primary and secondary school level is seen as key and a game changer.

Sustainability

Sustainability is more about financing the transition rather than greening the balance sheet of banks.

Whether we talk about digital, ESG, or other topics, interoperability of different regulatory and reporting frameworks within the (EU) is the key. It is also crucial at the global level.

Promote aligned regulatory frameworks.

- Double materiality concept needs to gain more support (a difficult notion to emerge).
- Most members support the establishment of an EU green bond standard (to make investment in EU green bonds more attractive for investors published Nov 2023 and shall apply from 21 Dec 2023).
- The views of institutions and members managing financial institutions differ. It ranges from strong support of the ESG regulations to less support and applying minimal standard allowed by the law for clients with no ESG preferences.
- Difficulties in research. Need to converge methodologies based on more aligned data.
- Develop platforms with Sustainable Transition scenarios and transition plans.

For CSRD to achieve its objective, trusted qualitative data are essential. Two key elements in this are a harmonized reporting framework and a high-quality external audit. The two-year delay is welcomed, as sufficient lead time is crucial—one year to source the data and another to digitally tag and audit it.

Members at all levels identify challenges related to the implementation of the regulation. They also have concerns about the disclosure of information on sustainable financing in the EU/Luxembourg market.

Challenges pointed out by the members:

- Need to adapt internal structures.
- Updating management and reporting processes and risk assessment.
- Adaptation of IT systems.
- Additional costs.
- Difficulties in finding appropriate support and sources of information regarding implementation.
- Need to standardize the rules and guidelines on a national level.
- Necessity to incur additional costs of staff training.

Pensions

Pension reforms and PEPP

It is important to develop a savings and pension third-pillar regime (personal voluntary pillar).

Members at all levels see the importance of pension products for both local and European capital markets.

Majority of members support PEPP and the general existence of European pension products.

Different tax systems in different member states may constitute a problem for encouraging people to save on those products.

Need to consolidate and simulate consolidated rights through technology instead of waiting (typically in Luxembourg one-two years ahead of retirement).

CFA Society Switzerland Blueprint for the Next EU Legislative Period

Resiliency of Capital Markets

Retail investment strategy	low	Already well covered by Financial Services Act (FinSA) and Collective Investment Schemes Act (CISA)
Inducement	medium	Inducements have been delimitated at large wealth managers, but not at smaller houses and not for all services.
Clearing	low	
Liquidity	low	
Fund Ownership	low	
AI and Sustainability Impact	low	
Finfluencers	medium	Might become relevant medium-term
Mis-selling	low	already covered with FinSA
Financial education	Low	Low minimum standard for client advisors in Switzerland

Fintech

AI Framework	Medium	Under-regulated
MiCA	Medium	Already underway by the Swiss Financial Market Supervisory Authority (FINMA).
Cloud and Data security	Medium	Important topic because of client confidentiality, but Swiss Data Protection Act covers already fairly well.
Gamification	Medium	Currently not in focus, but should gamification become even more prominent, retail investor protection could become relevant

Business Conduct

MiFID II Certification	High	Not a Swiss thing as FinSA covers it differently; but should an EU wide certification be envisaged, CFA charterholder should be waived.
AI and Ethics	Low	
Value for money		Already covered by Retail Investment Strategy

Sustainability

SFDR	High	Switzerland directly impacted as Switzerland conducts cross-border business into the EU
Reporting	Low	
Multiple Voting Rights shares	Low	
Engagement	Low	Debtholders should be able to engage
Green Bonds	Medium	No standards now, but Swiss government has started to set a standard in 2022

Pensions

PEPP		
Pension Reforms		
Flexibilization of Asset Allocation	High	High focus in Swiss legislation (parliamentary stage)
Professionalization of pension fund governance and investment professionals	High	High focus in Swiss legislation (parliamentary stage)

Potentially also:

Bank regulation (Basel III): measure to prevent digital bank runs (beyond leverage and tier-1 ratio), currently early in discussion at Swiss National Bank.

Resiliency of Capital Markets

Avoid overregulation. Harmonize in pan-Europe (same standards for all, individual standards are protectionism and don't add value). Moreover, the more complicated and country-specific the system is, the more difficult it is to implement (e.g., compliance costs at banks). Communicate to investors how standards work for them.

What investors need to know is how regulations work for them. Investors should gain financial knowledge and education before signing anything up. And investors need to understand proxy voting and how it works for them.

Consider voluntary behavioral norms (not just legal), so investors can ask for "comply or explain."

In terms of inducements, the situation was legally unclear until early 2010s. Though sometimes vaguely mentioned in general terms and conditions. At least it was not on the radar of investors or the regulator. A turning point was the ruling[7] of the federal court, Switzerland's supreme court, on 30 October 2012. In discretionary mandates, inducements must be returned to the client due to inherent conflicts of interests. Inducements may only be kept if there is a written agreement in the advisory business. FINMA issued a supervisory measure[8] to force wealth managers to implement the Supreme Court ruling. Today, in 2024, inducements have completely disappeared in discretionary business. In the advisory business, they have vanished at most leading banks/ wealth managers and been replaced by a contractually agreed advisory fee. At certain independent asset managers or smaller wealth managers, however, there are still occasionally retrocessions not paid out to clients. But this is usually contractually agreed upon, and the clients are at least legally made aware of it.

Fintech

AI

Regulators should look at the impact on investors (and other stakeholders) and maintain a scale from low to high risk plus mitigating measures.

A regulation focusing on AI depends on regulators' goals. If the goal would be to prevent its deployment, then it cannot come early enough. If the goal is to mitigate negative fallout, then it is probably too soon. This technology is advancing at a faster pace, and regulations are finding it difficult to keep up with.

EU AI Act is a positive step towards regulating AI. But further considerations for sector-specific risks, ethical guidelines, and effective implementation are essential. Striking a balance between fostering innovation and ensuring responsible AI use remains a complex but necessary goal for the EU.

Last December's provisional adoption of the EU AI Act (yet to be formally confirmed) will lead to the world's first horizontal regulatory framework for AI. The AI Act is meant to respond to numerous ethical, legal, and societal concerns in relation to the use of AI in widespread applications. The AI Act was drafted based on several years of preparatory work by the European Commission, the European Parliament, and others. The EU aims to balance the promotion of innovation with the protection of fundamental rights and values.

The AI Act is drafted as horizontal legislation that aligns with a sophisticated and proven tradition of product safety regulation in Europe. The new regulatory

[7]See court rulings: 4A_127/2012 und 4A_141/2012

[8]See FINMA: www.finma.ch/en/~/media/finma/dokumente/dokumentencenter/4dokumentation/finma-mitteilungen-archiv/finma-mitteilung-41-2012.pdf?sc_lang=enandhash=EF8E0F2CCA6179B7A3C9562553F2F8B8 (FINMA Newsletter 41)

framework should be flexible enough to adapt to different industries while establishing a baseline for safety and ethical considerations. But implementing the safety measures may pose challenges, particularly in industries with diverse applications of AI.

For the financial services industry, especially for asset management, ethical concerns are linked to the use of AI. Especially for topics, such as, reasonable basis, fairness, accuracy, reliability, and trustworthiness (see the framework from CFA Institute on Ethics and Artificial Intelligence in Investment Management published in 2022 and the specific question below on ethical challenges). Accordingly, the provisions contained in Title III of the AI Act (obligations of providers and users of high-risk AI systems and other parties) appear of primary interest. Specific rules interpreting and transposing these rules into level 2 and 3 financial services are needed. This proposal is based on the belief that different sectors may have unique considerations and risks associated with AI. Tailoring regulations to specific industries could enhance their effectiveness.

For example, conducting conformity checks, managing risks, and establishing robust data governance for AI models (see article 10 of the AI Act applying to high-risk AI systems only) are crucial aspects to address these ethical concerns for asset management.

Preventing the use of AI to bypass governance requirements for incumbent businesses must be ensured. Maintaining a level playing field ensures fair competition and prevents unfair advantages for businesses using AI to threaten the interests of the investing public.

MiCA

MiCA does not address the main issues concerning investments in cryptoassets. Behavioral norms around incentives and stakeholder analysis could be used to stay up-to-date for superfast change in digital assets.

MiCA is duplicating many concepts of incumbent securities regulation into the crypto space. It is uncertain at this point whether the regulation is fit for purpose. For instance, in the case of e-money tokens and their reserve requirements to maintain effective stability. Also, missing is a ban on the proof-of-work consensus mechanism on the basis of its conflict with climate change and sustainability goals.

Cloud and data security

Cloud (as opposed to on-prem solutions) offer unparalleled efficiency. But that is a double-edged sword if security is compromised. This also leads to unparalleled efficiency. Cloud services are also particularly vulnerable to DDoS attacks. This is particularly dangerous for time-critical industries such as asset management. Strict cyber-security requirements are therefore of the highest order in regard to the weakest link, which is human operators.

In summary, the adoption of cloud services in asset management brings many advantages. But it also introduces concerns related to resilience, data security, geographic considerations, operational risks, compliance, vendor dependencies, cost management, and data ownership. Addressing these concerns requires a thoughtful and comprehensive approach to ensure that market participants may fully benefit from cloud technology while mitigating potential risks.

The existing regulatory framework, such as GDPR and the Swiss Federal Act on Data Protection, is sufficient to address these concerns. Specific rules on outsourcing and operational resilience also meet the needs of financial markets supervision and investor protection.

To overcome the issues of vendor dependencies and data ownership, the relevant industries in the EU/European Economic Area and Switzerland should be adequately supported by favorable economic, legal, and regulatory conditions. For example, by attracting relevant service providers to receive sufficient computing power locally.

Considering the importance of the US market for computer services of all kinds, the EU and Switzerland should find a reliable solution to transfer data from and to the United States (successor agreement for the US privacy shield).

Gamification

No aspect of the use of gamification practices should be regulated. Existing regulation suffices. However, enforcement should be improved.

Business conduct

MiFID certification

The EU should focus increasingly on the certification of training for investment professionals. A professional license is needed if one (a fiduciary) deals with other people's money and/or risk.

Need for consistency across Europe, and not country-specific rules. There should be minimum requirements that need to be satisfied. Not only in terms of technical skills but also in terms of behavioral/ethical skills. And the CFA charter should waive all those requirements, like in the United States (FINRA series).

AI and ethics

Addressing these ethical concerns requires a holistic and collaborative approach involving regulators, industry stakeholders, AI developers, and the wider community. It is essential to prioritize transparency, accountability, and fairness in the design, deployment, and monitoring of AI systems in the financial sector (see also the framework from CFA Institute on Ethics and Artificial Intelligence in Investment Management published in 2022).

The use of AI in the financial sector raises several ethical concerns that need careful consideration. Addressing these concerns requires a combination of regulatory frameworks, responsible AI practices, and transparency. Some of the main ethical concerns relate to bias and fairness, transparency and explainability, data privacy and security, cybersecurity risks, automated decision-making, and accountability.

The EU AI Act introduces obligations for AI developers and users. It includes conformity assessments, documentation requirements, and measures to ensure transparency and accountability. In particular to the requirements contained in Article 10 on data and data governance (that apply to high-risk AI systems only) and Article 13 on transparency and provision of information to suers. Some of these concepts could be beneficial to regulate operationally important AI systems used in financial services, especially asset management.

Promoting transparency through clear documentation of AI models, providing explanations for decisions, and using interpretable machine learning techniques can enhance accountability and trust.

Employing robust cybersecurity measures, conducting regular vulnerability assessments, and integrating adversarial training to enhance model robustness can help mitigate security risks associated with AI.

Providing clear and understandable explanations for automated decisions, offering recourse mechanisms for individuals to challenge decisions, and ensuring human intervention in cases of significant impact can enhance the explainability of AI systems.

Clearly defining roles and responsibilities for AI deployment, establishing accountability frameworks, and ensuring human oversight in critical decision-making processes can enhance accountability and mitigate risks.

Legislators and regulators should prevent the use of AI to bypass governance requirements for incumbent businesses. Maintaining a level playing field ensures fair competition and prevents unfair advantages for businesses using AI to threaten the interests of the investing public.

Value for Money

Pricing in percentage of assets would make little sense. Clarity must be given on incentives for managers based on percentage of AUM. More alignment is needed. Research must be done on cartel pricing.

Regulators should allow a competitive system with investment products/ services. Protectionism through different distribution/applicability rules does not help competition and keeps pricing high.

Sustainability

SFDR

The EU's SFDR primarily applies to financial market participants and financial advisors operating within the EU. Switzerland, not being a member of the EU, is not directly subject to EU regulations. But Swiss financial institutions or entities that conduct business with the EU or have EU clients may face challenges related to the extraterritorial impact of SFDR.

The challenges of Swiss market participants affected or in scope of the SFDR are similar to those of market participants domiciled in the EU/EEA. They are data sourcing and collection, data management, understanding and applying the concepts, and communicating with clients. Also, ESG matters must be suitably incorporated into risk management, portfolio construction, and overall investment strategies. While financial market regulations should build a consistent framework, implementing the latter should be left to a large extent to the industry's self-regulation.

ESMA's recent recommendation is to reinforce the regulatory framework "by clarifying certain key concepts." And by considering "the establishment of a reliable and well-designed labelling scheme for sustainable financial products" (see ESMA's preliminary progress report on greenwashing published in May 2023).

Also, Swiss market participants must try to align coherently with similar Swiss regulations on sustainability. While FINMA tends to pay attention to international consistency, the evolving nature of the bilateral relationship between the EU and Switzerland may create legal and regulatory uncertainty.

Engagement: how should EU companies build a more efficient engagement with shareholders and stakeholders? Should debtholders be able to engage and influence companies?

Debtholders should be able to engage and increasingly influence companies. They are the only capital providers that want their money back. Lending banks already have measures in place.

Green bonds

Regulators should aim for the development of a pan-European standard on green bonds. But the challenge for investors is to understand the impact of green bonds.

Pensions

Pension reforms

All pension schemes will sooner or later be shifting to DC because of the demographics.

Regulators should focus on a demographic model to set up pension reforms on a sustainable basis.

PEPP

The key aspects for PEPP would be asset allocation, professionalism of the investment decision markers, independence of investment decision makers, costs per beneficiary/costs per AUM, ethical principles (serving only beneficiaries), and actuarial assumptions.

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