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Via ESMA website

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MFE/gc

RE: AMF Italia's response to ESMA's Call for evidence on the retail investor journey: understanding retail participation in capital markets

AMF Italia welcomes the opportunity to provide ESMA with comments on the above Call for evidence as better detailed here below.

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Q1: What are the key reasons why many retail savers choose not to invest in capital markets and instead keep their savings in bank deposits? Please explain and provide practical examples, or evidence drawn from experience, where available.

In our members' opinion, the main driver of this behaviour is the low level of financial literacy among retail savers, which often results in misperception of risk and a distorted understanding of the risk-return relationship. On the one hand, retail investors tend to be highly risk-averse; on the other hand, they are frequently drawn to investments offering high returns, often without fully considering the associated risks and costs.

This combination leads many to favour bank deposits, which are perceived as safe but are typically inadequate in protecting against inflation and in providing a real return on capital.

Similarly, retail investors often allocate capital to real estate, viewing it as both safe and profitable, yet frequently overlooking transaction costs, maintenance, and liquidity constraints.

A growing number - particularly among younger investors - are also attracted to crypto-assets, lured by the prospect of high returns in a very short time, more like gambling rather than investing, but often falling victim to fraud and scams perpetrated by opaque online providers.

This scenario underscores the urgent need to promote financial education initiatives, while also simplifying and clarifying the investor experience in financial markets to make it more accessible and understandable.

Q2a: To what extent do retail investors find investment products too complex or difficult to understand? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• A major barrier to investment

• A moderate concern, but not the main factor **X**

• A minor issue compared to other factors

• Not a concern at all

Given the low level of financial literacy, retail investors often perceive the financial service landscape as overly complex and difficult to navigate. This perceived complexity is not necessarily linked to the intrinsic features of financial products - for instance, equity investments are relatively straightforward in structure.

Rather, the complexity stems from two main factors: the lack of basic financial knowledge, which limits investors' ability to assess products and risks, and the bureaucratic, time-consuming nature of investment processes and documentation, which creates additional barriers to access.

Q3: Do past experiences with low or negative returns significantly affect retail investors' willingness to invest again? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• Yes, negative experiences strongly discourage future investment **X**

• Somewhat, but other factors (e.g., trust, risk appetite) play a bigger role

• No, past experiences with poor returns are not a major factor in investor decisions

Negative experiences in terms of returns (even if very limited in number compared to positive experiences always in terms of returns) tend to discourage future investments, as retail investors often extrapolate past outcomes into the future - both positive and negative - without a rational assessment of the product's characteristics, the macroeconomic environment, the company's fundamentals, or the associated business risks. This behaviour is largely driven by a distorted perception of the risk-return relationship, which leads to emotionally biased decision-making (often entailing their exit from capital markets) rather than informed analysis.

Q4a: Do high fees and costs discourage retail investors from participating in capital markets? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• Yes, fees are a major obstacle to investment

• Somewhat, but investors consider other factors as well **X**

• No, fees are not a significant concern for most retail investors

Q5a: Have you identified a lack of trust in investment service providers as a factor influencing retail investors' reluctance to invest? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• A major factor

• A contributing factor, but not the main issue **X**

• A minor factor compared to other concerns

• Not a factor at all

Past scandals have, to some extent, weakened retail investors' trust in regulated intermediaries. A paradoxical consequence is that investors often place greater trust in unregulated entities, particularly those active on social media and promising high returns, despite the higher risks involved.

This highlights the importance of ensuring that financial education initiatives not only promote basic financial knowledge, but also clearly explain the role of intermediaries and the critical value of operating within a regulated framework to protect investors.

Q6: Do retail investors feel they have adequate access to investment advice and relevant information when they encounter difficulties in understanding investment products? If not, what forms of support would be most helpful? Please explain and provide practical examples, or evidence drawn from experience, where available.

In Italy, retail investors generally have adequate access to investment advice, as this service is commonly offered in conjunction with execution services (with the notable exception of online trading). This integrated approach has been strongly supported by the Italian competent authority, leading to a progressive enhancement of advisory services, which are typically provided on a portfolio basis, even for clients with small to medium-sized portfolios. This access to advice also enables retail clients to seek clarification when they do not fully understand product features, supporting more informed decision-making.

This context helps explain why the financial industry strongly opposed the idea of an inducement ban: many retail clients are reluctant to pay directly for investment advice, and the current model allows them to benefit from advisory services without incurring explicit charges.

Q7: Does investment advice provided to retail clients typically cover all types of investment products (e.g. shares, bonds, investment funds, ETFs), or are certain products rarely advised? If so, please explain which types of instruments are less commonly recommended and why. Please explain and provide practical examples, or evidence drawn from experience, where available.

Yes, investment advice in Italy typically covers a broad range of investment products, with the exception of those specifically targeted at professional clients. However, it is important to note that significant barriers still exist in this area, which may limit the effectiveness or accessibility of advice for certain retail investors.

The accessibility to a wide range of financial products is essential to ensure substantial protection of retail investors. Today such access is limited by regulatory barriers that restrict the scope of assets available for advisory or portfolio management purposes: i) the lack of clarity on the scope of PRIIPs regime has led to unintended negative consequences for corporate bonds, even plain vanilla. In most cases, these bonds have been targeted at professional clients only to avoid KID burdens, limiting investment opportunities available to retail clients; ii) for advisory and portfolio management, ESMA Guidelines don't allow deviations from the target market by type of client/knowledge and experience of the client, even if such a deviation would be necessary for diversification. This approach has no raison d'être when investment decisions are made/advised by a professional subject.

Based on the above, our members suggest that retail clients' access to investment products should be calibrated according to the type of service provided, with greater accessibility granted in case of portfolio management or investment advice.

Q8a: To what extent does a lack of financial education or investment knowledge contribute to retail investors' reluctance to invest in capital markets? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• A major barrier to investment **X**

• A contributing factor, but not the main issue

• A minor factor compared to other concerns

• Not a factor at all

Q11: What role do digital platforms and mobile applications play in shaping the investor journey? Are there digital features or tools that have simplified the investment process or improved investor understanding and decision-making? Conversely, are there aspects that may complicate the experience for some retail investors? Please explain and provide practical examples, or evidence drawn from experience, where available.

Digital platforms and mobile apps can greatly streamline the investor journey - particularly for younger, digitally savvy clients - making financial instruments more attractive vis-à-vis alternative opportunities promoted online and on social media. This digital channel is therefore essential for the future competitiveness of capital markets, and supervisory warnings about potential “push-to-invest” features should be balanced so that they do not stifle innovation.

For older investors - who still hold the bulk of bank deposits - mobile solutions may be less critical, yet clear, concise information remains vital for all age groups. Overlong or excessively technical disclosures can overwhelm investors and ultimately hinder informed decision-making. Designing short, user-friendly disclosures that highlight key risks, costs, returns and main product features is crucial to ensure a genuinely informed and confident investment experience for every client segment.

Q12: How effective do retail investors find the current mechanisms for filing complaints and obtaining redress when issues arise with investment products or services? Do issues with these mechanisms play a role in retail investors’ hesitation to invest? If yes, which improvements can be made? Please explain and provide practical examples, or evidence drawn from experience, where available.

Certain members report that the fragmentation among the different entities (intermediaries, supervisors, and mediation bodies) involved in the current mechanisms for filing complaints and obtaining redress can lead to retail investors’ confusion about whom to contact, waiting times, and expected outcomes. Some clients call to mediation/ADR bodies without having previously filed a complaint thus showing the unclarity of the applicable framework. The above-described circumstances can generate a lack of confidence in the possibility of obtaining compensation with subsequent reduction of the propensity to invest.

Q14a: **Do you believe that young investors are more attracted to speculative and volatile markets (e.g., cryptocurrencies) rather than traditional investments (e.g. investment funds)? If yes, what are the main reasons for this? Please select one or more of the**

following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• The expectation of high returns **X**

• The perception of lower costs (e.g., no management fees, low transaction costs)

• The ease of access and fewer entry barriers compared to traditional investments **X**

• A preference for decentralised, non-intermediated investments

• Influence from social media and online communities **X**

• Distrust in traditional financial institutions and advisers

• Other (please specify)

Q15a: MiFID II disclosure requirements aim to provide transparency and support informed investment decisions. In practice, do you believe these disclosures are helping retail investors engage with capital markets, or are there aspects - such as volume, complexity of content, lack of comparability, or format - that may reduce their effectiveness? Please explain your reasoning and provide practical examples, or evidence drawn from experience, where available.

As noted above, the current MiFID II disclosure regime is not adequate to support a genuinely informed investment journey. The documents are voluminous and jargon-laden. This information overload:

- raises compliance costs for intermediaries and creates barriers for new entrants;
- overwhelms retail investors, who would benefit far more from concise and plain-language disclosures, ideally harmonised with PRIIPs KIDs.

The result is an ineffective and costly system that does little to raise investor awareness and ultimately reduces transparency to a purely formal, bureaucratic exercise.

Q16a: Do retail investors find the PRIIPs KID helpful in understanding investment products?

Yes, the PRIIPs KID is a valuable example of how key information can be delivered in a shorter, more accessible format, and our members appreciate the innovative approach introduced by the PRIIPs framework. However, the obligation to update KIDs periodically and on an ad hoc basis has led many issuers to designate a professional-only target market, thereby avoiding the need to produce and maintain the document. This has had unintended consequences, notably by creating barriers to retail investor access, even for plain vanilla products, such as simple corporate bonds.

The issue is further compounded by the lack of clarity over what qualifies as a PRIIP and what does not, which remains a major concern. While there is certainly room for further simplification, the current situation risks limiting retail participation in otherwise straightforward financial instruments.

Q18: Do retail investors find the costs and charges disclosures helpful in understanding the costs of investing? Please provide details notably on the disclosures that are the most helpful (e.g., total costs, illustration of cumulative effect of costs on return) and on ways to improve them. If not, are there alternative ways to protect retail investors that could be considered while not increasing the volume of required disclosures?

Retail investors generally find it difficult to fully understand the current cost and charges disclosures under MiFID II. While the aim of providing transparent and comprehensive information is laudable, the disclosures are often overly technical and fragmented, making them difficult to understand, particularly for non-expert investors. For example, cost breakdowns (e.g. product vs. service; ongoing vs. entry/exit) would benefit from the use of simpler and less technical language and fewer unnecessary details. Excessive line-by-line disclosures tend to overwhelm retail clients and rarely support meaningful decision-making. Plain-language explanations, ideally accompanied by infographics or visual aids, are preferable to technical terminology. Furthermore, presenting cost information consistently across the MiFID and PRIIPs frameworks would reduce duplication, enhance comparability and improve the clarity of disclosures overall.

Q20: Do retail investors find the quarterly statements helpful in keeping track of their investments? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• Yes, it provides clear and relevant information **X**

• Somewhat, but the frequency could be lower

• No, the information is usually readily available to the retail investor online and thus the statements do not have much added value

• Mixed views (please elaborate)

Q21a: Do retail investors find the information on every 10% depreciation of leveraged instruments, or the portfolio value in case of portfolio management, helpful in keeping

track of their investments? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• Yes, it provides timely and relevant information **X**

• Somewhat, but the trigger for sending the information could be improved (e.g., when the performance of the portfolio is x% worse than the benchmark, if a benchmark has been agreed)

• No, this information may arrive at a moment of temporary market stress, triggering impulse-driven investment decisions at the wrong time.

• Mixed views (please elaborate)

Q22: To what extent do questions and measures on customer due diligence in accordance with AML/CFT requirements create barriers that prevent retail clients to start investing? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

- A major barrier to investment
- A contributing factor, but not the main issue
- A minor factor compared to other concerns **X**
- Not a factor at all

Q23: Do questions and measures on customer due diligence in accordance with AML/CFT requirements affect the onboarding experience for retail investors? Are there particular steps in the process that cause delays or confusion? Please explain and provide practical examples, or evidence drawn from experience, where available.

Our members have no evidence to argue that current customer due diligence measures, at the onboarding stage, result in a barrier or even in a disincentive to investments by retail clients.

Looking forward, with the entry into force of the new Regulation (EU) 2024/1624, a possible deterrent for retail customers could be the fact that the draft RTS for the implementation of the CDD provisions of the aforementioned Regulation identifies electronic identification ex Regulation (EU) 910/2024 as an almost exclusive means of customer verification in a non-face-to-face context and considers the use of other remote solutions to be only residual.

Conversely, in recent years, intermediaries have encountered many difficulties in onboarding institutional clients, subject to simplified CDD, due to differences in onboarding regulations among EU countries, which has created unlevel playing field especially for countries with more stringent regulations.

While the new AML Package seems to mitigate this disparity, our members believe that its onboarding requirements seem excessive for intermediaries subject to simplified CDD and risk further disincentivising investments.

Q24: For firms and trade associations: to what extent do national tax regimes create barriers to offering investment services and attracting retail investors on a cross-border basis? Please explain and provide practical examples, or evidence drawn from experience, where available.

Italian tax regimes affect the provision of investment services and the ability to attract retail investors across borders. The main issues identified by our members include:

A. Asymmetries in the application of different financial income tax regimes;

B. VAT on investment services;

C. The Italian Revenue Agency's interpretation of the VAT regime on derivatives.

A. Asymmetries in the application of financial income tax regimes

Italy currently applies three financial income tax regimes - managed, administered, and declarative - which exhibit significant asymmetries, primarily due to:

- Timing of taxation: In the declarative and administered regimes, income is taxed upon realization (i.e., sale or redemption of financial instruments). In the managed regime, taxation occurs on an accrual basis at year-end, even in the absence of divestments.
- Tax base determination: The managed regime is the only one that allows broad offsetting between different income categories (interest, dividends, and capital gains) and related losses. In the administered and declarative regimes, capital income (interest and dividends) cannot be offset against other income (e.g., capital gains from trading or redemption). This limitation has been exacerbated by recent regulatory changes concerning UCITS.

Although regulatory interventions are planned by the Italian government, current divergences continue to undermine the consistency and neutrality of tax treatment for Italian investors compared to those in other EU Member States, who are generally taxed at the time of the transaction.

B. VAT on investment services

Most financial services are exempt from VAT. Exceptions include custody and administration services, investment research, and, under certain conditions, financial advisory services -unless provided to mutual fund managers. This inconsistency conflicts with the principle of VAT neutrality and may lead to divergent interpretations across the EU, resulting in non-uniform tax effects.

C. The Italian Revenue Agency's interpretation of the VAT regime on derivatives

In Resolution No. 1/E of 2022, the Italian Revenue Agency equated energy swap derivative contracts to repurchase agreements and stated that the related monetary differentials constitute consideration and thus form the taxable base of a VAT-exempt transaction. AMF Italia and other trade associations proposed an authentic interpretation of the rule to classify these differentials as "money transfers," thereby excluding them from the VAT regime.

Without this clarification, negative consequences would arise:

- For industrial or commercial operators, who -by treating the differential as VAT-exempt consideration rather than a VAT-excluded money transfer- face limitations in deducting VAT on purchases;
- For financial intermediaries, who risk being disintermediated in favour of foreign intermediaries based in jurisdictions where this rule does not apply.

Q25: To what extent do tax-related issues discourage retail investors from investing in investment products issued or manufactured in another Member State? Please explain and provide practical examples, or evidence drawn from experience, where available.

Tax issues are a major deterrent for retail investors seeking to invest across borders. Key discouraging factors include:

Foreign dividends and tax credit

Foreign dividends (other than those from tax havens) are subject in Italy to a final withholding tax of 26%. The taxable base for this withholding depends on two scenarios:

- for dividends received directly abroad by the taxpayer (e.g., in a foreign bank account), the taxable base is 100% of the gross dividend distributed by the foreign company. These dividends must be declared and taxed in the taxpayer's income tax return;
- for dividends received through an Italian financial intermediary, taxation is applied directly by the intermediary. The taxable base is the net amount received in Italy after foreign withholding ("net frontier").

While the "net frontier" regime reduces double taxation, the overall tax burden on foreign dividends remains significantly higher than the 26% applied to domestic dividends. To avoid double taxation (foreign and Italian withholding), investors must rely on reimbursement procedures or double taxation treaties. However, only some treaties are fully effective in eliminating double taxation.

Recent Italian court rulings, contrary to the Revenue Agency's position, have affirmed that when foreign income is mandatorily subject to definitive withholding (via declaration or intermediary), the foreign tax credit mechanism must still apply. Even failure to declare foreign income does not preclude the right to a tax credit. In the light of rulings by Italian courts, our members hope for legislative changes.

	COLLECTION WITHOLDING TAX	
	Direct	**With financial intermediary**
Foreign Dividend	100	100
Foreign Conventional Withholding (15%)	15	15
Dividend Received	85	85
Taxable Base in Italy	100	85
Withholding (26%)	26	22,1
Total Taxes (Foreign + Italy)	41	37,1

Financial Transaction Tax (Tobin Tax)

The Tobin Tax has proven ineffective and counterproductive in the few EU Member States that adopted it. In Italy, it has negatively impacted the competitiveness of the financial market, with significant side effects for both intermediaries and foreign investors, who tend to shift operations to more favorable markets.

Since the tax primarily applies to shares of companies resident in implementing countries, the absence of EU-wide coordination results in unilateral penalties for national economies. In this context, suspending the tax pending broader EU consensus appears reasonable to avoid further distortions and restore the attractiveness of the Italian financial market.

Exchange-Traded Funds (ETFs)

Under current Italian tax law, the classification of financial income categories penalizes retail investors holding ETFs. Upon sale or redemption, capital gains (classified as capital income) cannot be offset against prior capital losses. It is hoped that the Italian government will act swiftly to eliminate the separation between capital income and other financial income, introducing a fairer and more consistent system that allows full offsetting of gains and losses, regardless of income type.

Conclusion

The issues outlined above represent only a portion of the distortions caused by fragmented tax regulations. In the absence of harmonized EU-level rules, each Member State retains full autonomy in defining tax rates, offsetting mechanisms, and criteria for taxing investment services and financial income. This creates uneven tax competition, encouraging regulatory arbitrage and capital flight to more favorable jurisdictions, thereby undermining the fairness and efficiency of the single market.

For this reason, the adoption of an EU directive establishing common and consistent rules is highly desirable, ensuring equal treatment for market participants and greater legal certainty for investors.

Q32: How do retail investors perceive the integration of sustainability preferences in suitability assessments? How has it impacted the investment advice/portfolio management services they receive? Please explain and provide practical examples, or evidence drawn from experience, where available.

The integration of sustainability preferences into suitability assessments is hampered by an overly legalistic Level II definition that relies on cross-references rather than plain language that a retail client can grasp. When this definition is replicated in client questionnaires, they fail to give investors the clarity they need to make informed choices about sustainability.

Furthermore, data emerging from such questionnaires, in particular when combined with a low level of financial knowledge, often show clients’ low interest for ESG matters, also based on the fact that their main goal is having a significative financial return which, in certain cases, could be higher for products not characterized by ESG components.

Intermediaries also struggle to secure consistent, comparable sustainability data because data providers use divergent methodologies. Despite substantial progress and significant investment in recent years, these shortcomings still prevent advisory and portfolio-management services from fully and effectively matching clients’ preferences with the sustainability features of available products.

Q36a: Do you believe the MiFID II appropriateness assessment helps ensure that retail investors understand the risks of the products they invest in? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

• Yes, it is an effective safeguard. **X**

• Somewhat, but there is room for improvement.

• No, it is not particularly effective.

• Mixed views (please elaborate).

Q37: Do current appropriateness rules and how they are applied by firms effectively address new types of services that combine payments, savings, and investment features? Please explain and provide practical examples, or evidence drawn from experience, where available.

The current appropriateness rules, as applied by firms, can effectively address new types of services that combine payment, savings, and investment features -provided these services are non-advised and do not involve portfolio management. For services that do include investment advice or portfolio management, the suitability rules are more appropriate and better equipped to ensure investor protection.

Q38: Are educational tools used during the onboarding process for retail clients? In your experience, are these tools primarily aimed at improving financial literacy, or are they mainly used to justify client access to complex financial products? Please explain and provide practical examples, or evidence drawn from experience, where available.

To the extent of our members' knowledge, educational tools are not used within onboarding processes.

Q39a: Do you believe the current approach to assessing client knowledge and experience via the appropriateness test (i.e., going beyond self-assessment) creates any barrier to retail engagement in financial markets? Please explain and provide practical examples, or evidence drawn from experience, where available

In principle, the current approach adopted by intermediaries to assess clients' knowledge and experience through the appropriateness test does not create significant barriers to retail participation in financial markets. However, our members see more critical barriers arising in the suitability assessment. In this context, the outcome of the assessment should not mirror that of a non-advised service. This is because a client's limited knowledge or experience can -and should- be compensated by the professional judgement and responsibilities of the intermediary in the advisory or portfolio management process. To promote the participation of retail clients in financial markets, this barrier should be removed or mitigated through clear Level 2 provisions or guidelines.

Q41: Does the current regulatory framework strike the right balance between protecting retail investors and allowing them to take informed investment risks? Please explain and provide practical examples, or evidence drawn from experience, where available.

The current regulatory framework fails to strike an effective balance between protecting retail investors and enabling them to take informed risks. Overloading disclosure and a formalistic "tick-the-box" mentality overwhelm investors without meaningfully advancing their interests, while simultaneously rendering EU capital markets less attractive and accessible -often an area that only legal specialists can navigate.

A revised framework should therefore aim to strike a new balance: robust investor protection alongside competitive and appealing EU markets. This requires a shift from a purely formal approach to a more substantive one. In this new landscape, investors would receive concise, comprehensible information and acquire stronger financial skills through targeted education initiatives and reformed school programmes, enabling them to understand risks and opportunities and accept greater responsibility for their choices.

Such a rebalanced system would enhance retail protection without weakening the essential link between investors/financial markets and the real economy.

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