

10 August 2023

The Board of Directors
The Compliance Officer

Dear Sirs,

Re: The EU Retail Investment Strategy Package

The purpose of this letter is to bring to your attention the EU Commission's proposal on the Retail Investment Strategy Package.

I. Background

On 30 May 2023 the Authority issued a [Circular](#) in relation to the Retail Investment Strategy Package adopted by the EU Commission. The aim of the new regulatory requirements proposed in this package is to strengthen retail investment protection, address shortcomings in various stages of retail clients' investment journey, and empower retail clients sufficiently to make more informed investment decisions that align better with their needs and objectives.

The legislative proposal takes the form of regulatory amendments to pertinent EU legislation and comprises a package with the following two (2) parts, which mutually reinforce each other as follows:

- (a) [the Omnibus Directive](#) and Annexes thereto: Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2009/65/EC ('**UCITS**'), Directive 2009/138/EC ('**Solvency II**'), Directive 2011/61/EU ('**AIFMD**'), Directive 2014/65/EU ('**MiFID II**'); and Directive (EU) 2016/97 ('**IDD**'), as regards the union retail investor protection rules; and
- (b) [the PRIIPs Amending Regulation](#): Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1286/2014 as regards the modernisation of the key information document.

The wide range of proposed requirements include a number of elements relevant to fund managers:

Updates to UCITS Framework:

Anticipated changes are set to strengthen the UCITS framework. Specifically, efforts are underway to ensure that Management Companies take measures to prevent undue costs from affecting UCITS and their unit-holders. This will involve introducing clear definitions for due costs, implementing transparent pricing processes, and ensuring reimbursement for any undue charges.

Additionally, a new requirement will mandate Management Companies to share cost and performance information with the MFSA at the fund level. Notably, the obligation to compensate investors for undue costs will also extend to other relevant sections.

Updates to AIFMD Framework:

Similar adjustments are in the pipeline for the AIFMD framework. Changes will be made to align with the principles outlined in the UCITS framework. This aligning effort aims to ensure consistent treatment of undue costs across both regulatory contexts.

PRIIPs Regulation Enhancement:

An expansion of the PRIIPs regulatory regime is on the horizon to include formats beyond traditional paper. Furthermore, there will be revisions to how key information documents are presented for PRIIPs that offer a range of investment options. Such documents will provide a general overview of these options and outline costs, excluding investment-specific charges.

Moreover, an informative "Product at a Glance" dashboard will be introduced. This dashboard will provide concise summaries of key information, including the type of PRIIP, associated costs, and risk indicators. Reflecting the growing focus on environmental matters, there will be requirements for PRIIPs to disclose information about their environmental sustainability initiatives. This entails revealing the proportion of investments tied to environmentally sustainable activities and disclosing the expected intensity of greenhouse gas emissions.

The accessibility of key information documents (KIDs) for PRIIPs will be enhanced. Specifically, an updated provision will require that PRIIPs KIDs be made available in an electronic format at no cost, unless a retail investor explicitly requests a paper version. This electronic version will be provided through an interactive tool, enabling investors to generate personalized key information documents.

For fund managers offering ancillary investment services, they will now be required to:

- (a) Make relevant and comparable pre- and post-contractual information about products and related services easier to understand, access, and more user-friendly;
- (b) Amend product oversight and governance rules to improve consideration of costs and also ensure that products offer real value for money to retail clients, enabling clients to achieve better investment outcomes and ensuring that products better match clients' needs and objectives;
- (c) Ensure further that the quality of advice aligns with retail clients' best interests, as well as address shortcomings in the way products are manufactured and distributed, particularly with respect to conflicts of interest that may arise due to the payment of certain inducements between product manufacturers and distributors;
- (d) Provide protection from misleading marketing communications and practices, including those on digital channels and social media;
- (e) Enhance financial literacy so that retail clients can make better, well-informed decisions; this is especially important given the ongoing digitalization of finance; and
- (f) Introduce further measures including, but not limited to: investor categorization and enhanced suitability and appropriateness assessments; measures to increase professional qualifications of financial advisors; and measures to enhance supervisory enforcement.

It's important to note that the information provided above is intended for general awareness and should not be construed as legal advice and is not yet a final text pending discussions by the co-legislators.

II. Next Steps – Action Required

The envisaged changes of the EU Commission proposal on the Retail Investment Package will inevitably lead to significant changes for the financial industry, particularly in relation to manufacturing and distribution processes, as well as to supervisory reporting.

Hence, the Authority emphasizes the importance of familiarizing yourselves with these newly proposed requirements and diligently evaluating their potential impacts on your entity's operations.

The MFSA is closely monitoring ongoing developments and discussions occurring within the EU legislative process, wherein it is asked to provide feedback. The Authority will also engage with the industry through workshops planned for later this year.

In the meantime, however, you are strongly encouraged to promptly submit any comments and feedback you may have on any one or more of these aspects to the Investment Services Supervision at isspolicy@mfsa.mt.

Yours faithfully,

Malta Financial Services Authority

Dr Christopher P. Buttigieg
Chief Officer-Supervision

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