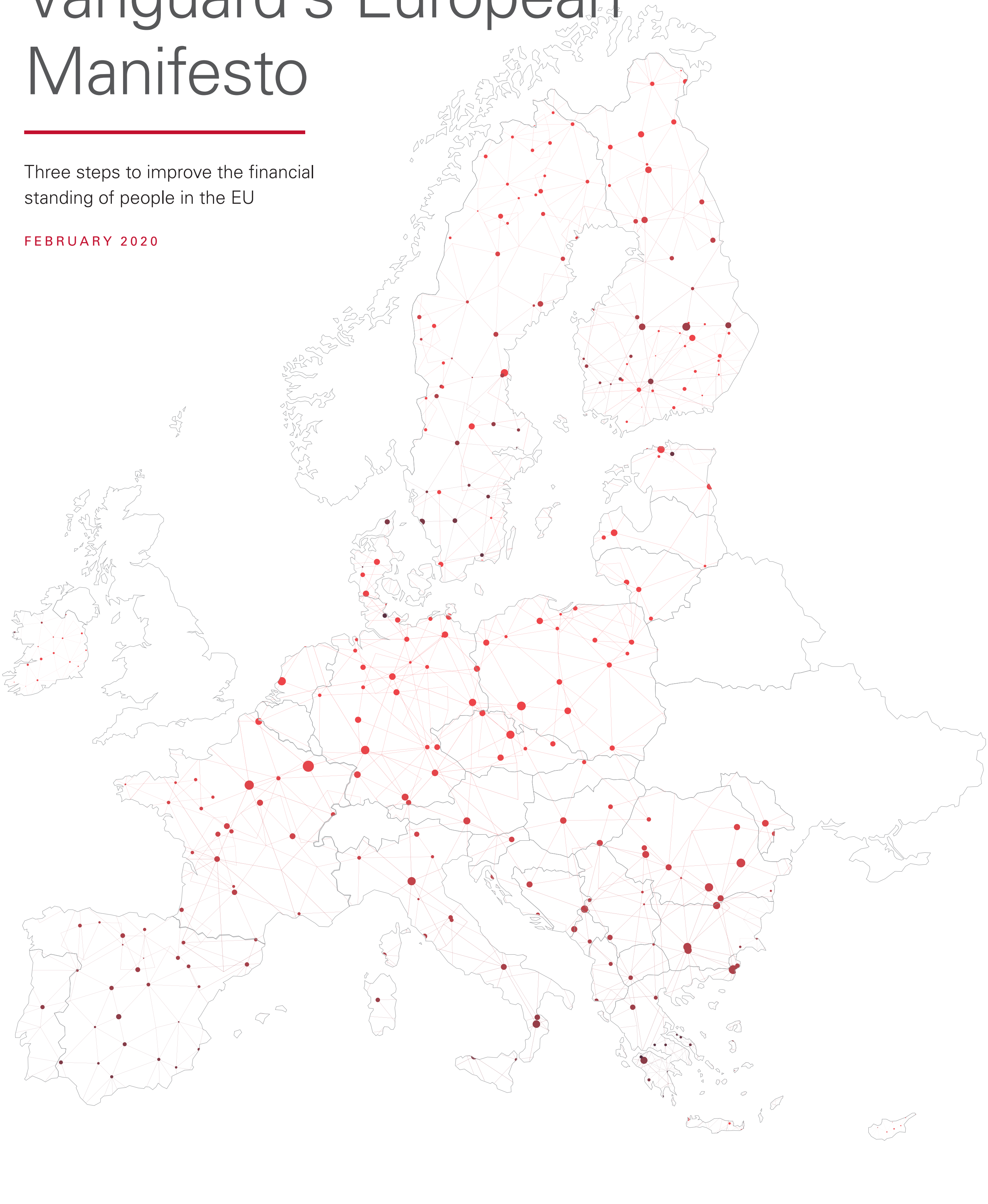
Vanguard

Vanguard's European Manifesto

Three steps to improve the financial standing of people in the EU

FEBRUARY 2020



Sean Hagerty
Managing Director,
Vanguard Europe

People in the European Union (EU) face an increasingly precarious financial situation. They often do not know how to save properly for their retirement, perhaps because they do not understand financial jargon or because they are put off by high charges. It does not have to be this way. We at Vanguard think there are a few things that can be done to help people feel more positive about their long-term finances.

I'm pleased to present Vanguard's manifesto of policy solutions which, we believe, will go some way to improving the financial standing of people in the EU. Vanguard is a different kind of investment company. We pride ourselves in taking a stand for all investors, treating them fairly, and giving them the best chance of investment success. For more than four decades we have helped millions of people around the globe reach their long-term financial goals through access to low-cost, high-quality investment products and services.

What follows is not an exhaustive list of solutions, but rather some ideas to provide a foundation for discussion and debate. We have developed these through extensive conversations with policymakers and subject-matter experts. We believe that more must be done to encourage people to save for their long-term future and empower people by reducing barriers to saving and ensure rules are consistent across the EU. Once people are saving, they should have access to a fair deal. The aim should be to make putting money aside for the future accessible to everybody.

It's my hope that you find our manifesto insightful and thought-provoking, and we look forward to discussing our policy proposals with you over the coming months. Together we can make saving easier and cheaper.

Sean Hagerty

Contents

Executive Summary

Europe's population is getting older. The European Union's 2018 Ageing Report[1] predicts that the number of people living in the EU will increase from 511 million in 2016 to 520 million in 2070. That rise masks a much faster, significant, expansion in the numbers over 69, alongside a fall in the working-age population. When and how people save for their retirement is therefore becoming an increasingly important question.

The prospect of fewer taxpayers to support rising numbers of older people is a significant — but not insurmountable — challenge. We believe that by taking three basic steps, policymakers can improve the long-term financial wellbeing of people in the EU and ensure they live comfortably in retirement.

First, more needs to be done to encourage people to save for their retirement. Second, we need to simplify and synchronise existing rules to reduce barriers to entry. Third, all Europeans should have access to a fair deal — that means being able to seek out appropriate financial advice, guidance and investment products, and not being charged unreasonable fees. What follows in this document is an in-depth look at how EU policymakers can help improve the financial wellbeing of EU citizens.

1. Encourage people in the EU to save for their long-term future

Include financial wellbeing as a dedicated responsibility for a European Commission Directorate-General

The European Commission (EC) should empower one of its Directorates-General (DGs) to take responsibility for financial wellbeing to ensure EU citizens get the information and support they need to make the right financial decisions. This could help bolster financial capability to the levels needed for people to live adequately in retirement. It would make sense for these responsibilities to be assumed by DG Financial Stability, Financial Services and Capital Markets Union (FISMA) or DG Justice and Consumers (JUST).

Harmonise and simplify tax regimes for long-term investment products across the EU

The lack of consistency across EU jurisdictions with regards to the use of incentives for savings and investments hinders the establishment of a pan-EU long-term investment market. Harmonisation of tax rules in this limited area would bolster the pan-European retirement product market, enhancing retirement savings.

Introduce a pan-EU pensions dashboard

People often have multiple pension pots from different jobs, often as a result of living and working in different member states. Making informed decisions about one's finances requires being able to see one's retirement savings in a single place. The creation of a pan-EU pensions dashboard would address this issue.

1 European Commission (May 2018), The 2018 Ageing Report

2. Reduce barriers to investing by simplifying and synchronising rules

Remove conflicts of interest in the investment distribution chain
Where consumers' money is invested should not be influenced by the existence of payments to intermediaries by product providers. However, in much of the EU this risk still exists. The EU should introduce a ban on all product provider commission payments to investment intermediaries, similar to that implemented by the Netherlands and the United Kingdom. Such bans remove the potential of conflicts of interest, increase competition and improve cost transparency. As a minimum, more could be done to ensure that existing rules requiring commission payments to be in the interests of consumers are enforced.

Require consistent and comparable product and services material for all EU consumers
Marketing-material requirements for retail investors should be harmonised across the EU to enhance cross-border availability of funds and to ensure investors have consistency in information about the products and services they are being offered. Without the appropriate information presented in a consistent and digestible way, consumers are put at risk of making poor decisions, unsuitable for their financial needs.

3. Ensure people in the EU have access to a fair deal

Develop tools and services to support retail investors in investment decisions and enable easy and accessible cost comparison
Online tools should be developed to help EU citizens find suitable and cost-effective retail investment products across the EU's capital markets.

Introduce a mandatory cost warning on all investment documents for consumers
High charges on products and services affect long-term returns. When consumers are made aware of the impact of charges on their net return, many would choose a cheaper product. A cost warning on all investment documents will help consumers better understand the damage caused by high costs.

Encourage the development of a range of innovative advice and guidance options
When consumers get help with their financial decisions, their investment return can increase by as much as 3% per year[2]. With this in mind, more should be done to provide consumers with a sliding scale of advice and guidance options, from (free) simple financial education through to (higher-cost) traditional face-to-face advice.

2 Vanguard (September 2016), Putting a value on your value: Quantifying Vanguard Advisor's Alpha®

Three steps to improve the financial standing of European citizens through invigorated capital markets

Vanguard is supportive of the EC's Capital Markets Union (CMU) initiative[3], which aims to integrate capital markets to put European savings to better use, improving the efficiency through which savers and borrowers are matched, and increasing the performance and competitiveness of the EU economy. Vanguard believes that retail investor engagement is a critical component of the development of a stronger capital market in the EU. This requires greater confidence among retail investors, and transparency to help investors to make the right investment decisions and for EU citizens to benefit from investment opportunities from around the world.

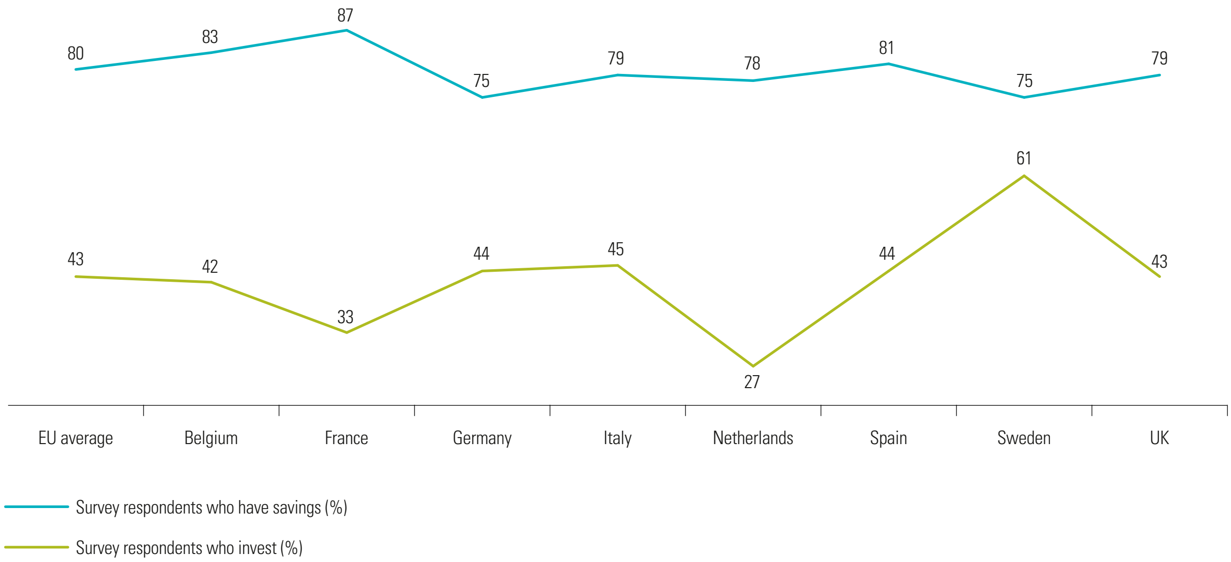
There are many opportunities to enhance the investment culture of Europe and ensure EU citizens can secure their financial future. With that in mind, we believe there are three steps to be taken to improve the financial standing of people in the EU, set out below and explained in the section which follows.

1. Encourage people in the EU to save for their long-term future.
2. Reduce barriers to investing by simplifying and synchronising rules.
3. Ensure people in the EU have access to a fair deal.

1. Encourage people in the EU to save for their long-term future

As noted within the EC's 2018 study[4] on the distribution systems of retail investment products across the EU, fewer than half of European households (43%) invest in any type of financial product. Instead, the vast majority of Europeans (80%) have savings that act as a buffer for emergencies and unpredictable expenses. As demonstrated in the graph below, the proportion of households saving and investing differs across member states.

Proportion of households saving and investing across the EU



Source: https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems_en.pdf

3 European Commission (September 2016), Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions; Capital Markets Union - Accelerating Reform

4 European Commission (April 2018), Distribution systems of retail investment products across the European Union

The EC's Consumer Markets Scoreboard, which uses surveys to monitor how markets are functioning from the perspective of consumers, indicates that financial services are consistently ranked among the poorest-performing service markets in Europe. Combined with a mediocre level of financial literacy (50/100 in the EU28), the average retail investor in Europe has little confidence in his or her own financial decision-making or in financial institutions in general[5]. An average consumer in the EU is often overwhelmed by the sheer complexity of, and uncertainty associated with, investment products.

Best and worst performing services markets in the EU

Best performing

1. Personal care services (hairdressers, nail studios etc): 84.9
2. Holiday accommodation (hotels): 84.1
3. Packaged holiday and travel tours: 82.6

Worst performing

1. Real estate: 73.1
2. Investment products and private pensions: 75
3. Mortgages: 75.8

Source: Europa (2018), Consumer Markets Scoreboards

Yet, saving and investing is ultimately a means to an end. It enables us to reach our future goals, such as living comfortably during retirement. Short-term needs are often best met through savings accounts with banks. However, cash savings are typically less effective in the long term as a result of the corrosive effect of inflation: money put aside today is worth less in the future.

For longer-term goals, where there is a need for a positive real return (after deducting the impact of inflation), people typically need to accept some market risk from investing in company shares (equities) and company or government debt (bonds). The trade-off for this risk is the potential for a higher long-term return. For example, in the UK, equities and government bonds have generated after-inflation annual returns of 5.0% and 1.3% respectively from 1900 to 2016[6]. As the European Parliament notes[7], people in Europe are living longer and having fewer children, making it more important than ever that EU citizens take responsibility for their later-life income. As noted above, the EU projects that in 2070 the total population will be 520 million, up from 511 million in 2016. The working-age population, however, is set to fall, from 333 million in 2016 to 292 million in 2070 (a drop from 65% to 56% of the total population)[8].

Compound earnings (i.e. returns on past returns as well as on the original investment) can significantly increase the value of an investment over the long term. Delaying starting to save can mean a much smaller retirement pot compared to that of someone who started earlier, as highlighted in the example below.

Consider two pension savers of the same age: Adriana and Luis. Adriana starts saving for her retirement at the age of 20, investing just €50 a month. Luis waits until he is 40, but invests €100 a month. Supposing an average investment return of 4%, when Luis is 60 he will have a retirement pot of just over €36,500. Adriana, however, at the same age will have a retirement pot of nearly €60,000. The two savers have invested exactly the same amount of money over time, but because of starting earlier and compounding, Adriana has ended up with nearly twice as large an investment pot.

Note: the above investment pots do not take into account fees and costs.

5 Bruegel (May 2018), Financial literacy and inclusive growth in the European Union

6 Barclays (2016), Equity Gilt Study 2016, (data from 1900 – 2016)

7 European Parliament (November 2018), Framework for a pan-European personal pension product (PEPP)

8 European Commission (May 2018), The 2018 Ageing Report

Whilst it is recognised that there are risks associated with investing, it is equally true that there are risks involved with **not** investing.

These include:

1. **Reduced spending power:** The cost of living rises over time. Inflation may be low today, but it has been higher in the past. Savings need to outpace inflation, otherwise today's money will buy less in future.
2. **Funding shortfall:** The risk of not having enough money to reach one's goals, such as buying a house or retiring.
3. **Insufficient retirement pot:** Longevity risk is the risk of running out of sufficient money in retirement, due to living longer than expected.

Proposed policy solutions

a) Include financial wellbeing as a dedicated responsibility for a European Commission Directorate-General

b) Harmonise and simplify tax regimes for long-term investment products across the EU

c) Introduce a pan-EU pensions dashboard

a) Include financial wellbeing as a dedicated responsibility for a European Commission Directorate-General

Financial education programmes have been set up in many member states, but the actual impact of these programmes seems generally limited as the overall financial literacy of the European population remains low. Financial literacy[9] starts with financial education, including basic economics, statistics and numeracy skills, combined with the ability to employ these skills in making financial decisions. Research has shown that, as people become more financially literate, they make better saving and borrowing decisions and are more likely to plan for retirement.

As a complement to financial literacy, the concept of financial guidance is gaining traction. The EC's Financial Services User Group (FSUG), set up to give a voice to consumers, says financial guidance should be completely disconnected, either directly or indirectly, at all times, from the sale of any financial products. Although some financial institutions provide some elements of financial guidance to their customers, only two bodies fully meet the definition given by the FSUG: the German consumer association VZBV, and a service implemented by the UK government, the Money and Pensions Service. EU member states typically fund public service organisations that place financial tools on their websites to help consumers, but the FSUG notes these are often not sufficient for individuals to make good financial decisions.

A dedicated responsibility for consumer financial wellbeing within the EC (DG FISMA or DG JUST) could help ensure that EU citizens get the information and support they need to make the right financial decisions throughout their lives. The function could play a key strategic role in supporting financial capability throughout the EU, giving people the power and confidence to make the most of their money and improve their lives.

According to the Organisation for Economic Cooperation and Development (OECD), the need for financial education and literacy is universally recognised and is a core component of financial empowerment for individuals and the stability of the financial system. In 2016, the leaders of the G20 endorsed the National Strategies for Financial Education, developed by the OECD and International Network on Financial Education, which sets out various ways to better educate the public in financial matters[10]. A dedicated function within the EC would further this aspiration by ensuring EU member states are co-ordinating efforts to create lasting solutions to the large-scale social problem of low financial capability (for example, promoting the value of private pension provision through the proposed pan-European personal pension product, or PEPP).

9 Batsaikhan, U. and Demertzis, M. (May 2018) Financial literacy and inclusive growth in the European Union

10 OECD/INFE (2015), National Strategies for Financial Education: Policy Handbook

At a bare minimum, a centralised consumer website could link to relevant national initiatives on financial education and guidance.

b) Harmonise and simplify tax regimes for long-term investment products across the EU

Voluntary personal pensions are generally only successful when accompanied by significant tax incentives for savers. Tax policy, however, is a national competence rather than an EU issue, posing challenges, for example, to the EC's ambitions for a pan-EU personal pension product (the PEPP). Specific challenges include a lack of tax relief when switching between share classes and questions over where the point of tax sits — at a fund level or at an investor level. In the absence of an overarching EU framework, the variety of approaches under these two specific challenges alone result in differing administrative responses, with consequent cost implications.

Partly in recognition of this challenge, in January 2019 the EC proposed moving from a requirement for unanimous member state voting in respect of taxation matters (which has historically made progress on taxation difficult) to the ordinary legislative procedure (in which the European Parliament and the Council are co-legislators and decisions are made by qualified majority).

Were such a move to qualified majority voting ever to occur, it could be used to facilitate limited tax harmonization across the EU in respect of long-term investment products.

Harmonising specific tax rules that favour long-term investments across member states would encourage and facilitate further initiatives to link consumers with investment opportunities and mobilise capital in the Union. It could give rise to consistent EU tax treatment for specific investment products. For example, it could catalyse a future PEPP single market by aligning current national criteria for granting tax incentives and facilitating the portability of the PEPP.

c) Introduce a pan-EU pensions dashboard

As part of the CMU action plan, the EU has recognised that personal pensions have a role to play in linking long-term savers with long-term investment opportunities, helping to channel savings towards capital markets and benefit investment and growth in the EU.

Vanguard is very supportive of the creation of the PEPP and believes this will strengthen long-term European investment and help drive down investor costs by fostering economies of scale and competition.

While we believe that the PEPP will evolve into an important vehicle for retirement savings portability and consolidation, it is only one part of the retirement and pensions landscape in the EU. A significant number of EU citizens will have many jobs during their lifetime. Many could also have accrued state pension rights in a number of countries. As a result, they may have different pension pots to consider and manage.

For these individuals, being able to see their savings in one place, through a pan-EU pensions dashboard, would be very beneficial in enabling them to better plan for and manage their retirement. Indeed, evidence from the Netherlands suggests that pensions dashboards can encourage consumer engagement with pensions by making them more tangible and visible[11]. Our proposed dedicated financial-wellbeing function within an EC Directorate-General could help create a group to deliver such an initiative.

11 House of Commons Library (May 2019), Briefing Paper (8407): Pensions Dashboards

2. Reduce barriers to investing by simplifying and synchronising rules

Building a strong and integrated CMU is key to encouraging EU citizens to save for their future. In addition, through ensuring a harmonised and consistent EU regulatory framework for the asset management industry, policymakers and regulators will help preserve the competitiveness of the European asset management sector to the benefit of the consumer.

As part of the CMU, the EC is seeking to remove barriers to investment created by fragmented national approaches and measures, for example through the EU cross-border funds directive and regulation. But some of the key national barriers are deep-rooted.

Proposed policy solutions

a) Remove conflicts of interest in the investment distribution chain

b) Consistent and comparable product and services material for all EU consumers

a) Remove conflicts of interest in the investment distribution chain

In the EU, the distribution of investment products still largely follows the commission-based remuneration model[12]. Firms that sell financial products often do so through third parties (intermediary distributors such as banks and insurance companies) and pay these intermediaries a sum of money (commission) for arranging the sale. However, embedded commissions (those paid to an adviser by the fund company) give rise to potential conflicts of interest that misalign the interests of investment fund managers and intermediaries with those of the investors they serve[13]. The payment of commission to intermediaries can cause product bias in favour of those products paying higher commission and away from those paying less, or no, commission, to the detriment of consumer's best interests. The United Kingdom, for example, saw a significant shift towards the sale of products that had never paid commission after product-provider commission payments were prohibited by following the Retail Distribution Review (RDR)[14]. A similar result has been seen in the Netherlands.

In accordance with Vanguard's mission to ensure that all investors have the best chance of investment success, we try to minimise investor costs as much as possible. Vanguard, as a product and service provider, does not pay intermediaries commission for distributing funds, a model which allows investors to benefit from lower ongoing charges.

We strongly believe that the fund market operates in the best interests of investors where:

- providers compete on the price and quality of their products to secure distribution; and
- intermediaries are not inappropriately influenced by the payment of commission by product providers when giving advice or distributing funds to their customers.

As a result, during the negotiation of the second Markets in Financial Instruments Directive (MiFID II), we supported the complete prohibition of product providers paying intermediaries a commission to sell their products, and intermediaries retaining this payment, on the basis that such a ban would:

- reduce the risk of intermediary conflicts of interest affecting the products that were purchased by/for end investors;
- increase product access and competition, meaning a wider variety of products were available for investors to purchase; and
- increase cost transparency.

12 European Commission (April 2018), Distribution systems of retail investment products across the European Union

13 Canadian Securities Administrators (2017), Consultation on the option of discontinuing embedded commissions

14 In the UK, the Retail Distribution Review (RDR) was launched by the Financial Services Authority (FSA), the predecessor body to the Financial Conduct Authority (FCA), in 2006. It was designed to make retail investment markets work better for consumers. It introduced new rules in relation to investment advisers and platforms, which aimed to raise levels of adviser qualifications, improve the transparency of adviser charging and services, and realigned adviser and platform incentives with those of consumers by removing the commission they received from providers. The majority of these rules were required to be implemented by the end of 2012, with rules in relation to platforms taking effect from April 2014.

Nevertheless, we do acknowledge that some challenges can arise as a result of the introduction of complete prohibitions on commission payments. For example, advisers having to bill their services separately and revealing the true cost of their advice can lead to some investors considering the extent to which the advice they receive represents value for money, and in some cases concluding that it is not. However, we would argue that facilitation of low-cost, technology-enabled advice at the same time as prohibiting commission-based selling can help address any such advice gap.

We note that transparency in respect of commission-sharing arrangements can mitigate the detrimental impact of product providers paying commissions to intermediaries. Nonetheless, we believe that the associated conflicts can only truly be addressed where the payment of commission by product providers to intermediaries is banned completely, as has been done in the United Kingdom and the Netherlands. The current MiFID II inducements regime has been a step in the right direction in that it prohibits commission payments to discretionary wealth managers and independent financial advisers. However, commission payments are still permitted to the likes of non-independent financial advisers, fund supermarkets and execution-only platforms where certain conditions are satisfied. One of these conditions is where the recipient intermediary concludes that the commission payment is designed to enhance the quality of service to clients.

Even if a complete prohibition of commission-based selling of investment products is not possible, we believe that the harmful effects of conflicted remuneration models can be reduced by tightening up enforcement of the current MiFID II inducement rules. In this regard, we welcomed the Danish Financial Supervisory Authority's review [15] into whether commission payments in the Danish market were really designed to enhance quality of service. In the absence of a total ban, we believe there is an opportunity for the European Securities and Markets Authority (ESMA), under the provisions of Article 45c of the ESA Review[16], to undertake further supervisory convergence work and reduce the harmful effects of conflicted remuneration models by tightening up enforcement of Article 24(9)(a) of MiFID II.

b) Consistent and comparable product and services material for all EU consumers

Vanguard is committed to ensuring that all investors have the best chance of investment success. A key part of this is to ensure that investors receive and have access to the same information on a product-by-product and/or a service-by-service basis when making their investment decisions. Furthermore, Vanguard believes that this information should be presented in a helpful, easy-to-understand and useful manner.

In July 2019, updated rules to remove remaining barriers to cross-border distribution of investment funds came into force, enhancing rules around the cross-border distribution of UCITS and alternative investment funds in the EU. The so-called Regulation on Facilitating Cross-Border Distribution of Collective Investment Undertakings seeks to address several barriers to the efficient cross-border marketing of investment funds across the EU[17].

We are supportive of the fact that the regulation requires a centralised ESMA database that brings together national marketing requirements to enhance cross-border distribution of funds. However, we still believe that greater harmonisation of requirements applicable to investment product and services marketing material for retail investors would help investors — both in terms of the range of products available and the costs related to investing. We regard the standardisation of marketing materials across borders to be fundamental if all EU investors are to make informed decisions based on their specific needs. Equality of information should be a key principle of a single capital market.

It is a legitimate question to ask why the information and investment needs of a consumer in, for example, France are currently different from a similar consumer in Denmark when buying the exact same non-complex UCITS fund. At a minimum, ESMA could usefully exercise greater

15 Danish Financial Supervisory Authority (2018), Temaundersøgelse om provisionsforbuddets konsekvenser

16 This introduced new regulations covering the three European Supervisory Authorities, of which ESMA is one https://www.esma.europa.eu/about-esma/who-we-are/esa-review.

17 European Parliament, European Council (2019), Regulation [EU] 2019/1156 of the European Parliament and of the Council on facilitating cross-border distribution of collective investment undertakings and amending Regulations [EU] No 345/2013, [EU] No 346/2013 and [EU] No 1286/2014 oversight of the marketing regimes applied by different member states in respect of retail investors and look to remove (or at the very least minimise) any unnecessary inconsistencies.

3. Ensure people in the EU have access to a fair deal

Awareness of costs among European savers is low. There is little engagement with investment product fees, with past performance frequently driving decision-making despite not being a reliable single guide to future performance. Consumers also mistakenly apply habits from other areas of life to their savings: whilst a more expensive television may be of better quality, in investing, higher cost products and services typically underperform lower cost alternatives. To this end we are supportive of lowering costs and increasing transparency for EU savers.

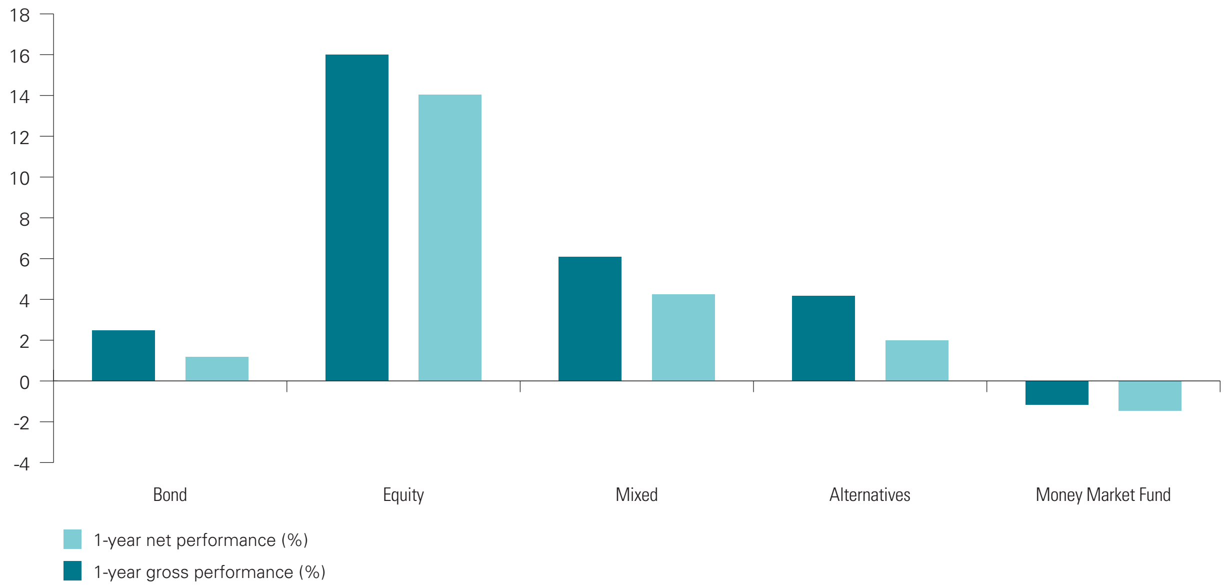
Low investment costs enable investors to keep more of their returns. An investor's return is decreased by every euro spent on investment-related costs. This is particularly important when people do not have substantial sums to invest and/or, as is currently the case, are investing in a low-return environment. Research consistently shows that lower-cost funds outperform their higher-cost competitors over the long term and the best way to predict the future relative performance of a fund is its cost [18].

ESMA research has found that, in the EU between 2015 and 2017, costs eroded investment fund returns by an average of 25% across different asset classes [19]. The graph below summarises ESMA's findings in respect of the difference between gross returns (i.e. before costs are applied) and net returns (i.e. after costs are applied) for a number of different fund types.

Ensuring easy access to information and advice is key to making sure that consumers get a fair deal once they have decided to invest their savings. To this end, we are asking policymakers to continue taking steps to stimulate the development of a market that provides affordable and accessible financial information and guidance for all, so that investors can quickly and easily compare costs.

We need to help investors become smarter investors. Clear, concise, engaging and helpful communications are needed to help consumers make better-informed investment decisions. Providing consumers with information that encourages competition will improve services and lower costs, thereby improving investor returns.

Impact of costs on UCITS performance by asset class



Source: https://www.esma.europa.eu/sites/default/files/library/esma50-165-731-asr-performance_and_costs_of_retail_investments_products_in_the_eu.pdf

18 Morningstar (2016), How Fund Fees are the Best Predictor of Returns

19 ESMA (2019), Performance and costs of retail investment products in the EU

Proposed policy solutions

a) Develop tools and services to support retail investors in investment decisions and enable easy and accessible cost comparison

b) Introduce a mandatory cost warning in all investment documents for consumers

c) Encourage the development of a range of innovative advice and guidance options

WARNING

CHECK HOW MUCH YOU ARE PAYING:

HIGH FEES WILL HARM YOUR LONG-TERM RETURNS

a) Develop tools and services to support retail investors in investment decisions and enable easy and accessible cost comparison

Retail investors in Europe have access to a wide range of products through various distribution channels. However, they face huge challenges in collecting information, comparing data, and getting independent advice on the different products on offer. We are extremely supportive of the Deloitte study on behalf of the EC that looked at the development of online tools and services that may help EU citizens find suitable and cost-effective retail investment products across the EU's capital markets, and thus make better investment decisions.

A digital comparison tool to allow consumers to filter, select and compare investment products, aligned to predetermined criteria such as returns, expense and location, will help consumers make better-informed decisions.

b) Introduce a mandatory 'cost warning' in all investment documents for consumers

Investment providers should be mandated to include a specific warning in all consumer documentation about the corrosive effect on returns of paying high charges. An illustration of possible wording is set out below.

Behavioural finance research — such as the UK FCA's findings in its Occasional Paper 32 (OP32)[20], Now you see: drawing attention to charges in the asset management industry — confirms that when consumers are made aware of the impact of costs on their net return and are able to compare costs between rival offerings, this significantly increases (by over 10%) the proportion of participants selecting a cheaper fund. However, this positive impact will only be felt if the entire investment industry is playing by the same rules. For example, voluntary adoption by a firm of a 'cost warning' on the impact of costs on net returns actually risks the firm's products and services being viewed by consumers as "high cost" in comparison to organisations that do not include such a warning. This will be the case regardless of whether the products and services of the provider including such a warning are actually (or perceived to be) high-cost or not. Furthermore, effective comparison between the costs of investment products and services will only be possible where there is standardisation of both the underlying data and the way costs are calculated. Regulatory action, therefore, is necessary to ensure a level playing field.

c) Encourage the development of a range of innovative advice and guidance options

Many investors need help from time to time to make successful investment decisions. Vanguard research[21] has quantified the value of a (good) advisory relationship as adding somewhere in the region of 3% a year in investment return. Behavioural coaching helps investors stay calm in turbulent markets and stick to their financial plan. Greater provision should be made for a sliding scale of advice and guidance options, including low-cost, technology-enabled advice, in order to meet the differing wants and needs of the investing public in the EU.

20 FCA (April 2018), Now you see it: drawing attention to charges in the asset management industry (Occasional Paper 32)

21 Vanguard (September 2016), Putting a value on your value: Quantifying Vanguard Advisor's Alpha®

The three European Supervisory Authorities published a Discussion Paper[22] in December 2015 on financial advice automation and published a feedback report in December 2016. They identified three primary benefits of automated advice: reduced consumer cost; widened, democratised access to financial products; and, lastly, improved service quality arising from 24/7 availability, greater consistency and the most up-to-date data and information.

The offering of advice would be greatly improved with additional clarity from regulators on suitability requirements under any model of simplified advice. As things stand, firms appear reluctant to launch simplified advice models in the absence of definitive statements from regulators as to the information that an adviser is required to obtain to determine whether specific advice is suitable for a client or not. There is a fear of being judged non-compliant at a later stage by those same regulators with the benefit of hindsight.

Moreover, the regulatory framework for advice and guidance could be further clarified, particularly as regards the definition of each and the distinction between the two. Policymakers should address the rigid distinction between guidance and advice to enable firms to provide a middle ground between execution-only services and advised offerings.

What is clear is that technology-enabled advisory solutions have an important role to play in providing affordable and accessible advice to investors. Automated advisory platforms ("robo-advisers") can be revolutionary for savers and investors, both in terms of enhancing accessibility and providing services at lower cost. Vanguard's own "hybrid" advisory service in the US is a case in point. It uses technology in combination with a human adviser, allowing for the provision of a low-cost service, whilst retaining human judgement and a personal relationship.

Conclusion

We hope that our proposed three-step approach can be the beginning of a much-needed conversation about how to make sure EU citizens are prepared to meet their long-term financial needs.

We strongly believe that if policymakers reduce barriers to investing, ensure consumers have access to a fair deal, and simplify rules across the EU, there would be a positive change in the investment culture amongst EU citizens and a strengthening of the CMU project.

We look forward to being active in these conversations in the months and years ahead.

1. Encourage people to save for their long-term future	2. Reduce barriers to investing	3. Ensure people have access to a fair deal
• Include financial wellbeing as a dedicated responsibility for a European Commission Directorate-General • Harmonise and simplify tax regimes for long-term investment products across the EU • Introduce a pan-EU pensions dashboard	• Remove conflicts of interest in the investment distribution chain • Require consistent and comparable product and services material for all EU consumers	• Develop tools and services to support retail investors in investment decisions and enable easy and accessible cost comparison • Introduce a mandatory cost warning in all investment documents for consumers • Encourage the development of a range of innovative advice and guidance options

22 ESMA (December 2015), Joint Committee Discussion Paper on automation in financial advice and ESMA (December 2016), Report on automation in financial advice

Appendix: About Vanguard

Vanguard is one of the world's largest asset managers offering a wide selection of low-cost mutual funds and exchange-traded funds (ETFs) to retail and institutional investors in markets across the globe. The Vanguard Group, Inc. - Vanguard's parent company - was founded in 1975 and is based in Pennsylvania. Vanguard's global assets under management (AUM) were just under €5.5 trillion (as at 31 December 2019).

Vanguard has been operating in Europe for over 20 years. Our UCITS funds are based in Ireland and as at 31 December 2019 had just under €150 billion AUM. Our investors range from direct retail investors to institutional and intermediary investors such as banks, pension funds, independent financial advisers and discretionary wealth managers.

Vanguard's long-term strategy in Europe is to offer scalable investment services, low-cost, competitively-performing funds, along with value-added investment services. Vanguard has approximately 600 staff across its European offices in London, Frankfurt, Paris, Amsterdam, Dublin and Zurich.

Our mission

Vanguard's core purpose is to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.

One aspect that sets us apart from the rest of the asset management industry — and lets us always put investors first around the world — is the ownership structure of Vanguard in the US. Rather than being publicly traded or owned by a small group of individuals, Vanguard is owned by the US mutual funds and ETFs it manages. Those funds, in turn, are owned by their investors, meaning Vanguard is structured as a "mutual" fund company. This unique structure aligns our interests with those of our clients — benefiting investors worldwide — and drives the organisation's culture, philosophy and policies.

Our philosophy — low-cost, transparent investing

Our inspiration is to change the way the world invests. For more than 40 years we have advocated for the Vanguard way of investing — clear goals, a balance of investments, low costs, and discipline.

These enduring principles have helped millions of people save for retirement, fund their higher education, or buy a new home. The investment industry has followed our lead, resulting in better outcomes for many more investors.

Indeed, while investors cannot control the markets, they can control the cost of investing. The funds and services we offer are amongst the lowest cost available in their peer groups. This is not a pricing strategy for us; it is how we do business and is good for the returns of our clients. Vanguard's scale also helps to keep costs low. As our assets under management increase globally, we can reduce expense ratios for the investors in our funds.

Important information

For professional investors only (as defined under the MiFID II Directive) investing for their own account (including management companies (fund of funds) and professional clients investing on behalf of their discretionary clients). Not to be distributed to the public.

The material contained in this document is not to be regarded as an offer to buy or sell or the solicitation of any offer to buy or sell securities in any jurisdiction where such an offer or solicitation is against the law, or to anyone to whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so. The information in this document does not constitute legal, tax, or investment advice. You must not, therefore, rely on the content of this document when making any investment decisions.

Past performance is not a reliable indicator of future results.

The material contained in this document is for educational purposes only and is not a recommendation or solicitation to buy or sell investments.

Any tax reliefs referred to in this document are those available under current legislation, which may change, and their availability and value will depend on your individual circumstances. If you have questions relating to your specific tax situation, please contact your tax adviser.

Issued by Vanguard Asset Management, Limited which is authorised and regulated in the UK by the Financial Conduct Authority.