

THE CHANGING FACE OF EUROPEAN DISTRIBUTION: A better financial future for savers?



MAY 2014

Meeting the challenge of longevity is one of the most important public policy issues that needs to be addressed today. Populations are living longer and governments are struggling to meet future liabilities. While longer life is a blessing, it also raises financial challenges. Savers need to make their money last longer and deliver more if they are to keep on track to meet life's needs and goals.

A lack of confidence in financial markets has led many savers and investors to seek shelter in cash and/or property – this may leave them ill-prepared for the future. Restoring confidence in the markets and reinvigorating a savings culture means rethinking the provision of financial advice

to connect savers and investors to the products and strategies that are best suited to their needs.

The current policy debate in Europe around the provision of financial advice is multi-faceted and complicated. Every European jurisdiction has its own distribution structures, market culture and investor expectations. A one-size-fits-all regulatory response will not accommodate the fragmented nature of national retail markets in Europe. Regulation such as the UK Retail Distribution Review (RDR) designed to suit a market where independent financial advisers predominate may not translate well in other countries that rely on banks to distribute investment products and advice.

BLACKROCK GUIDING PRINCIPLES TO DRIVE EFFECTIVE CHANGE

Deliver investment solutions aligned to investors' goals	Avoid unintended consequences
<ul style="list-style-type: none"> ▶ Regulation should encourage choice. Investors should have access to a wide range of competing products, using both active and index strategies, regardless of whether advice is delivered using commission or fee-based advice models. ▶ Advice is key. Regulation can drive effective change by focussing on the delivery of a client-centred advice model rather than an incentives-driven model. ▶ The value of services – and not just product costs – will be the key differentiator between distribution channels. ▶ How are advisers' remuneration and pricing models aligned with their clients' goals? This includes meaningful transparency on costs and commissions, developing new models for servicing clients and aligning advisers' incentives to the client experience. 	<ul style="list-style-type: none"> ▶ Regulatory initiatives need to apply across all distribution channels. Raising the threshold for just one channel will drive distribution to other less regulated channels. The end-investor should expect similar levels of transparency across all retail investment products, whether investment funds, structured products, life assurance or personal pensions. ▶ Effective financial planning needs to be available to investors broadly. It is important that new advice models are designed to encourage mass market investors to access financial markets. This can be achieved by developing effective guidance or assisted advice models for cost conscious mass-market investors.
Look to the future	Changes to business models require time and careful planning
<ul style="list-style-type: none"> ▶ Plan for the savings and retirement needs of future generations. ▶ Consider the impact initiatives such as mandatory pensions savings will have on the need for simplified advice and execution-only solutions. ▶ Consumers will increasingly assess investment services and products through the internet and social media. Both the industry and regulators need to embrace these changes. 	<ul style="list-style-type: none"> ▶ The timing and sequencing of implementation should factor in the scale of change to ensure a seamless transition for investors. Business model changes lead to significant reshaping of the intermediary value chain and operational development. ▶ Higher standards of qualification take time to implement. ▶ The volume of contractual documentation between adviser and end-investor and advisers and asset managers is enormous – and updating will take time.

In this *ViewPoint*, we examine how the key regulatory tools being used to reform retail markets are likely to shape investors' experience of the investment process. We consider positive outcomes as well as unintended consequences resulting from commission bans. We assess whether this experience can be applied elsewhere, especially in the context of recent developments on the regulation of financial advice and distribution at European level of Markets in Financial Instruments Directive 2 (MiFID 2).

At BlackRock, we support initiatives that encourage long-term savings by improving the quality of advice, aligning advisers' interests with those of their clients, and broadening the choice of investments offered to savers.

Based on the UK and Dutch experience, our guiding principles (laid out on page 1) are designed to reinvigorate the provision of savings and investment solutions to end-investors in the context of national market structures. The principles that we recommend apply beyond Europe and can be tailored to reflect the savings cultures in each jurisdiction.

To encourage the levels of savings needed to deliver future retirement income, regulatory initiatives must take a holistic view of the relationships between asset managers, distributors and advisers to deliver the right balance of protection for savers. We believe such an approach is the most effective way of increasing the confidence of Europe's pensioners and savers.

In this Issue

This *ViewPoint* sets out:

1. What savers and investors tell us they need;
2. Various regulatory options to improve distribution and advice; and,
3. How regulatory change is affecting business models.

We also include an annex comparing regulatory changes happening both in Europe and further afield.

What savers and investors tell us they need

As part of our responsibility to represent the needs of savers and investors, we regularly seek their views. Our most recent survey is the 2013 BlackRock Investor Pulse; a global survey which polled 17,600 people aged between 25 and 74 across 12 countries including the UK, Germany, France, Italy, Netherlands, Belgium, Switzerland and Hong Kong. It aims to provide insights into how today's savers and investors are prioritising their personal finances.¹

Investor concerns

Investors shared their concerns with us – many of these are relevant to the debate on regulation of distribution:

- ▶ Uncertainty about their financial future
- ▶ High levels of cash and hesitancy to take action
- ▶ Knowledge gap about income – how to generate an adequate income in retirement
- ▶ Investor confidence increases with the amount of financial planning taken

A major savings gap....

Funding a comfortable retirement came up as the biggest current financial priority for the people surveyed. However, there is a gap between people's retirement aims and their knowledge of what is required to meet these aims. Savers are setting unrealistic goals for their retirement. Across the UK, Italy and Germany, our research found a consistent belief that their savings will generate more income in retirement than is realistic.




Our survey indicated that in the UK, investors hope to achieve an annual household retirement income of £27,400, and think they will need to save £259,000 to reach this goal. To achieve this income investors would in fact need to save £525,000 at today's value.² German respondents expected an annual retirement household income of €44,000, and believed they would only need to save €183,000. Again, their expectation is far behind the reality as, in order to receive this income, they would actually need more than €1m at today's value. A similar story played out in Italy, where investors underestimated their retirement saving requirements by more than €500,000.

The simple problem is that many people are prioritising the short term over the long term with retirement planning suffering greatly because it is such a distant goal. For example, over half of the people in the UK (53%) admit to not saving anything specifically for retirement. That number remains the same among those aged 35-54, typically the age at which earning power should peak and planning for retirement should become more of a priority, especially as people are living longer.

.... compounded by an advice gap

The BlackRock Investor Pulse Survey highlights the real value of seeking financial advice. The desire to grow a sufficient nest egg to fund retirement, and have something left over to provide a financial legacy for children is strong. Without adequate financial planning, savers are struggling to juggle short-term spending decisions. However, the majority are not seeking professional advice to build up such a plan. Our research shows a low uptake of financial advice among the population at large but high levels of satisfaction from those who do use an adviser (see first table on next page).³

EUROPEAN INVESTORS ON FINANCIAL ADVICE

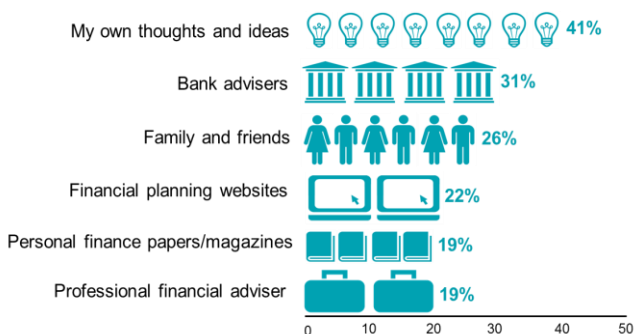
	 UK	 Germany	 Italy
Investors not considering using a financial adviser	69%	67%	63%
Investors considering the use of financial advisers	17%	16%	16%
Actual uptake of financial advice	14%	17%	21%
Satisfaction from those using the services of financial advisers with their overall financial plan	96%	91%	91%

Source: BlackRock Investor Pulse 2013

Financial planning is key to improving outcomes for investors

Our research shows undertaking any form of financial planning will have a positive impact on whether people feel in control of their financial futures. For most citizens, such financial planning is likely to be informal, based on using their own thoughts and ideas (see table below).

SOURCES OF FINANCIAL ADVICE USED BY EUROPEAN INVESTORS



Source: BlackRock Investor Pulse 2013

By not taking professional advice, many could be missing out on the benefits of developing a comprehensive plan which allows them to build up sufficient savings. The figure below shows how those who do take financial planning seriously (the 'sentiment' dimension) are much more likely to feel positive and in control of their financial futures, as well as more confident about their savings and investment.

EUROPEAN VIEWS OF FINANCIAL PLANNING



Source: BlackRock Investor Pulse 2013

One of the key challenges in regulating advice is to encourage savers to become more engaged in the planning of their long-term financial wellbeing. From our survey, it becomes clear that the financial services industry needs to talk the language of the consumer in order to attract the majority of people who feel shut out by existing advice models. This means meeting the investment needs of the wider population with simpler processes and products – and in a more simplified regulatory framework.

Regulatory options to improve distribution and advice

Commission bans under MiFID 2 apply to independent advisers and discretionary portfolio managers, in many cases, leading to a change of existing business models. A number of jurisdictions are contemplating further RDR-style reforms going beyond MiFID 2. Our experience is that such initiatives highlight the cost of investment and challenge advisers to justify the value of their advice to their clients. We examine the policy drivers, implications and potential unintended consequences that may arise for the end-investor from these changes.

Trust between the adviser and end-investor

Trust between client and adviser is vital in developing a relationship that benefits the client. Trust requires meaningful transparency on the scope and cost of advice and clarity of any potential conflicts of interest. Disclosure and suitability requirements exist in many national rules, but different approaches to supervision and enforcement mean investors continue to experience different levels of disclosure and service across products, distribution channels and countries.

Setting investor expectations via disclosure

Standards for giving advice – such as assessing a product's suitability for a particular client or regularly reviewing investment decisions – vary significantly across distribution channels and countries.

BlackRock supports the requirements in MiFID 2 that savers must have clarity on the scope of services provided to them. Advisers must explain which products they are entitled and qualified to advise on, whether 'whole of market', restricted to specific sectors or to the products provided by a specific bank or insurance company.

Deciphering terminology

MiFID 2 refers to the payment or provision of fees, commissions or any monetary or non-monetary benefits to distributors and advisers. In practice these payments or benefits are referred to in a number of ways including "commissions", "trailer fees", "retrocessions", "kickbacks", "perks" or "inducements".

Different terminology is used in different jurisdictions and for ease we refer to payment of monetary benefits as "commissions".

Is there a future for commission payments?

Historically, advice has often been paid for by the product provider to the distributor in the form of a commission. This can be either an upfront commission paid out of the initial subscription and/or an on-going 'trail' of commissions.

Alternatively, the cost of advice can be met by fees paid directly by the end-investor to the adviser. Under the commission-based model, it is not always easy for investors to determine the actual cost of advice with the risk that commission-based incentives may foster an incentive-driven sales culture rather than a client-centric quality advice model.

The MiFID 2 rules forbid the payment of commissions unless the payment or benefit:

- ▶ is designed to enhance the quality of the relevant service to the client; and
- ▶ does not impair compliance with the firm's duty to act honestly, fairly and professionally in accordance with the best interest of its clients.

The firm's client must also have full transparency as to the existence, nature and amount of the payment or benefit or the method of calculating that amount in a manner that is comprehensive, accurate and understandable, prior to the provision of the relevant investment or ancillary service.

These criteria have been the starting point for a number of regulatory discussions with the industry to determine whether existing commission-based structures indeed meet the spirit of the MiFID 2 requirements.

Compliance with transparency requirements has often in the past meant disclosing commission as a formula (as commission is determined as a percentage of future net assets) rather than a single monetary amount (e.g., €1,000 per annum). This makes it hard to appreciate the value of the advice and to relate it to the cost of providing that advice.

Commission-based advice has often been seen as a 'free' service. In the UK, the transition to RDR has focused advisers on the need to convince savers of the value of their service and forced them to define the level of servicing they provide to their clients.

Four key focus areas emerged from a recent BlackRock survey of UK advisers:⁴

- ▶ 76% will be focusing on client servicing and retention
- ▶ 72% intend to improve their client proposition
- ▶ 68% will focus on improving their technical knowledge and qualification
- ▶ 39% will focus on greater client segmentation/specialisation around core client groups

Advisers are not only looking at how to embed regulation in their business operations and becoming better qualified but they are also considering how to make a real difference to their customers. 45% say they believe that RDR will improve investor confidence which is a significant increase in sentiment from two years ago.

Reviewing incentive and compensation structures within open and closed architecture

A ban on the payment of commissions will create unintended consequences unless it is applied across all adviser types. The UK, for example, bans commission across both independent and restricted advice channels as does the Netherlands. MiFID 2 bans commissions paid to independent financial advisers and to discretionary portfolio managers as being particularly detrimental to investors.

A partial commission ban runs the risk that many advisers move to a closed architecture or tied-advice model where commissions can still be paid, rather than face the upheaval of transitioning to a fee-based business model. As a result, end-investors may receive a more limited choice of investments.

It is important in this context to recognise that open-architecture models encourage competition between product providers and have contributed significantly to the growth of the cross-border delivery of financial service. They tend to offer greater investment choice and challenge incumbents on price.

In contrast, closed-architecture models have the advantage of offering a simplified range of products but run the risk that internal incentive structures mean that investors are offered higher-cost, inappropriate products.⁵ Maintaining an equal focus on internal distribution models is just as important as is the focus on the independent model.

Many commercial payment structures restrict the product ranges offered to savers as they exclude non-commission paying products such as index funds, ETFs and closed-ended funds such as investment trusts. If commission payments are permitted to remain within both open and closed architecture models, then distributors will need to consider how to adapt their existing cost base and business model to ensure end-investors have access to a full range of products suited to their needs with meaningful transparency of all the costs involved.

A number of regulators are focusing on the compensation and incentive models within closed-architecture firms and this is likely to be a key focus in the implementation of MiFID 2. This is to ensure that distribution models do not lead to investors being advised to invest in products which are unsuitable for their needs, either because the investment strategy or performance is unsuitable or because the costs of manufacture and distribution minimise investment returns. The rules in MiFID 2 incentivise restricted or tied advice channels to ensure that they offer a sufficiently wide range of products to meet suitability requirements.

Alternative ways of improving investor outcomes

Changing investor habits

Many retail investors are best served by the provision of high-quality, tailored, affordable advice on the wide range of products in the market. Traditionally, advice has been paid for by commission payments, which, because they are structured as a percentage of assets under management, create a subsidy paid by those investing large amounts to those investing smaller amounts. The prohibition of commissions eliminates this subsidy.

Those retail investors unwilling or unable to pay an upfront fee for this advice will move towards execution-only solutions or not invest at all. Banning commissions could result in some retail investors adopting 'do-it-yourself' investing and making inappropriate investment decisions, unless simplified advice models are developed in parallel.

Regulation also needs to prepare for radically different distribution channels in the future given the importance of the internet and social media in driving buying habits in many other sectors. Brand awareness and the ability to deliver investor education material via consumer-focused retail sites will become essential components of any asset manager wishing to establish a solid mass-market retail base.

In many jurisdictions the growth of mandatory savings through workplace pensions is likely to change the location and timing of conversations between adviser and saver as employers seek to make basic advice models available to their employees.

In all these cases regulation ought to enable the growth of simplified advice models rather than the full service advice model targeted by many regulatory initiatives.

Guided or simplified advice

Simplified and/or more generic advice might form an alternative to the full service advice model for many retail clients, especially mass market clients. Such advice might be appropriate for investors wishing to invest small amounts in the simplest of products with low-risk ratings. Asset managers, distributors, regulators and consumer organisations should all be involved in the construction of appropriate simplified advice or guidance models. This would avoid concerns that these models are biased toward a particular product provider or product type.

The UK, for example, has recently launched a major reform on the provision of pensions. A key plank in this policy is access to free guidance to all on the approach of retirement. This guidance regime does not seek to replace existing independent financial advisers but acts as a universal first step to planning for retirement. Implementation of the new regime will be a test on how new models of impartial guidance could work.

“Choice on its own is not enough. Consumers need to be able to make informed decisions. We will therefore guarantee that individuals approaching retirement will receive free and impartial face-to-face guidance to help them make the choices that best suit their needs. We will introduce a new duty on pension providers and schemes to deliver this “guidance guarantee” by April 2015.”

— George Osborne,
UK Chancellor of the Exchequer, HM Treasury
Consultation: “Freedom and Choice in Pensions”
March 2014

Execution-only business

Execution-only platforms are useful for investors who do not want or need to take advice. While most investors require some form of advice even if in the form of simplified guidance, more sophisticated investors may wish to take advice from a variety of sources and deal directly with an asset manager or through execution-only venues.

Interestingly, under MiFID 2 commissions can still be paid to operators of execution-only platforms who do not offer advice, leaving investors in the difficult position of assessing the costs of investment using different methodologies.

Fees

Banning commission payments does not address all the complexities of the distributor market, where investment transactions are often routed through dealing or administrative platforms that provide the benefits of consolidated reporting and settlement. The cost of these services that provide administrative advantages to distributors and asset managers is often bundled within commission payments paid by asset managers. Where unbundled services are required by regulation we recommend that platforms should be able to be paid separately for the administrative services they supply.

Consistent adviser training

Notably, training and qualification requirements of advisers differ across jurisdictions. Key to the success of the UK RDR has been the focus on improving adviser training. We believe regulation should require standards for financial advisers to be brought to a consistently high level by assessing appropriate national and international qualifications for equivalence and setting a minimum standard that should be attained and on-going requirements for continuing professional development. It is important to recognise that these additional training requirements cannot be achieved overnight, but advisers should be given clear goals as to the standards they must reach.

How regulatory change is affecting business models

The cumulative impact of regulatory reforms will also lead to fundamental changes in tied and restricted advice models, causing many distributors to reassess and transform their business models, especially those distributing on a cross-border basis from a common platform.

Commission payments are likely to remain in place in some jurisdictions, in some cases competing alongside fee-based advice models as in the US. In others, national regulation has mandated a move to fee-based advice as in the UK, Netherlands or Australia. In each case distributors face a number of key challenges in moving advisers to a fee-based model, whether in the mass market, wealth management banking sectors or within the independent sector.

Revisiting the client servicing proposition

Advisers will need to answer a number of challenging questions in order to be able to deliver a viable business model. To establish a new client servicing proposition they will need to:

- ▶ determine the cost of servicing clients;
- ▶ understand the potential benefits of client segmentation;
- ▶ model potential revenue scenarios depending on the willingness of clients to pay for a specific service model;
- ▶ forecast how revenues might evolve over the next few years; and
- ▶ consider all other factors that influence how an advisory practice is valued.

Advisers will focus increasingly on client segmentation in determining the type of services they wish to offer. Asset managers need similar information to focus effectively on understanding the target market for their funds. In both cases, this will lead to increased demand for improved management information to conduct the necessary client segmentation and analysis.

Considering the value proposition for end-investors

Whichever payment model for advice is adopted, the outcome for the end-investor may lead to:

- ▶ advisers becoming less ‘transaction-driven’ and more service-orientated in their effort to win clients, thereby leading to better quality advice and greater price competition;
- ▶ improved risk profiling by advisers as a result of moves to provide higher quality advice, leading to a greater alignment between clients’ investment goals and their risk appetite;
- ▶ a greater focus on fees as investors focus on value for money from their advisers;

- ▶ an increasing trend to offer more cost-effective solutions to clients reflected in greater availability of passive-based products such as ETFs or other funds which do not pay commission;
- ▶ an increased number of advisers looking to provide discretionary services and in-house solution suites for clients looking for a 'one-stop-shop' style offering; and
- ▶ the development of risk-based multi-asset products offering a time-saving device for advisers who cannot justify bespoke portfolio construction for cost-conscious clients. The challenge is to provide diversified exposure through a simpler and lower-cost approach than in many traditional core portfolio allocations.

In countries transitioning to full commission bans, convincing clients of the value of advice has often been accompanied by a greater focus on developing investment solutions with reallocation of a significant amount of investment into lower-cost products such as index funds or outcome-orientated product solutions.

While we applaud the increased emphasis on the transparency of product costs, we caution that fees should not be the only criteria for screening investments. Reducing the cost of advice by investing in lower-cost products will not by itself lead to a better overall result for the investors. The initial stage of any change in business model is likely to focus on cheaper, cost-effective investment solutions. However, a successful business model cannot just be built on costs but must be seen by the client to deliver added value and deliver their investment goals.

Advisers need to adapt in order to maintain a sustainable business model. However, several routes can be taken depending on the market segment advisers choose to focus on and the service model they wish to offer clients. When transitioning to a fee-based model of advice advisers need to be able to answer simply and clearly:

- ▶ Why should a client should pay upfront for the advice he/she receives?
- ▶ Why are upfront fees better for the end-investor?
- ▶ How does an adviser provide value for money, compared to the past and with respect to competitive offerings in the market?
- ▶ How will the adviser show value for money?

We set out some suggestions on how to prove value for money below.

Value for money	Proof
Asset allocation?	Outperformance
Fund selection (active and/or passive)?	Performance attribution
Risk management?	Risk reports

In terms of product selection, active fund managers who consistently outperform will continue to attract new money, while investors with a low-cost approach will invest a higher percentage of assets in low-cost index solutions. The middle ground, defined as active fund managers with higher management fees but with lower performance outcomes, could well lose market share.

This industry trend will make it more important for risk/reward dynamics to be better explained to clients by product providers and advisers alike. The focus on lowering costs and adding value will force distributors to focus much of their effort on constructing model or framework portfolios. This could also lead to the development of alternative models of fee-based advice, such as discretionary management, which are not charged on the basis of a standard hourly rate.

Plan the implementation of new business models

Dramatic changes to the economics of delivering investment advice represent major implementation challenges. There are many operational and contractual issues, which must be carefully considered in any move to a fee-based model. These include updating and renegotiation of contractual arrangements one between client and adviser, and two between adviser and asset manager. Products may need to be restructured to allow for commission-free share classes, which in the case of cross-border products may have to sit alongside remaining commission-paying classes.

Asset managers may also be required to monitor and check that business received is booked to the appropriate distribution channels. This represents a complex operational challenge to implement and takes time to be put in place.

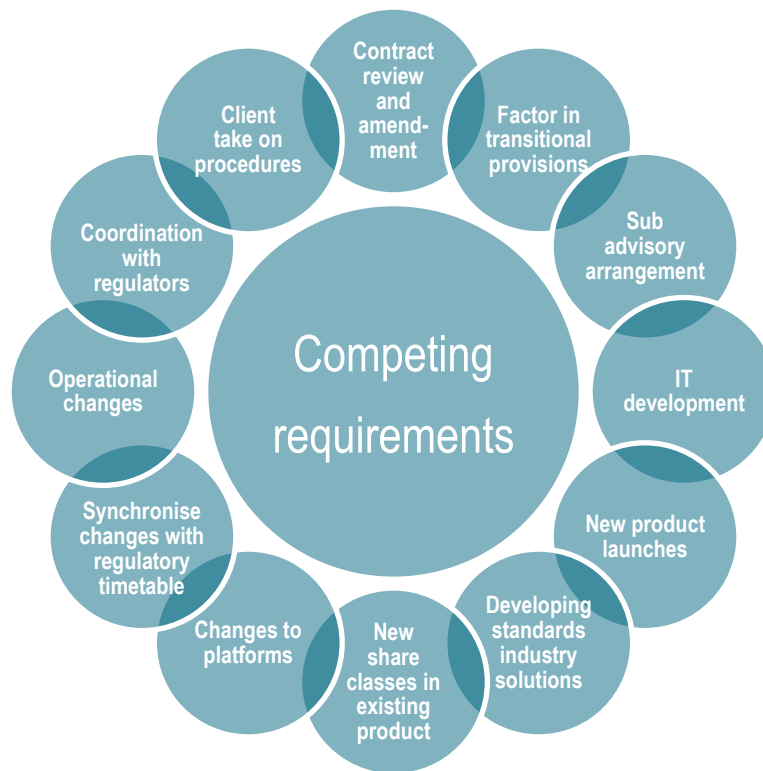
Regulators do recognise the challenge even where they are mandating a complete change of business model:

“I am convinced that banning inducements will contribute to the development of a viable business model with a high level of investor trust – although this will also require efforts to improve financial awareness among investors. I do understand that it will take some adjustments, both on the industry side and the investor side, to move to a new business model without inducements. Therefore, allowing sufficient time to all stakeholders to adjust before a ban is introduced would be reasonable.”

— Steven Maijoor Chair,
European Securities and Markets Authority,
October 2012 at the BBA Annual Conference⁶

PLANNING FOR CHANGE

We present a number of the competing operational requirements, which asset managers and advisors need to put in place when changing existing business models. These changes have to be carefully planned and coordinated across the industry.



Implications for asset managers

For asset managers such as BlackRock the increased focus by advisers on quality advice and risk-rated solutions is leading to greater demand for outcomes-based products to meet client needs. We expect advisers to look increasingly for solutions that package a range of funds including ETFs, multi-asset funds, as well as traditionally active-managed funds, provided they meet investors' risk appetite at relatively low cost.

In particular, it seems likely that index investing will become more popular with the public as a less expensive means of gaining access to financial markets. Asset managers will need to devote more resources to producing educational materials to assist investors and distributors to meet their investment goals. Key to asset manager success will be the willingness to assist both advisers and investors as they transition to new

client relationships, by investing in training and educational materials on less familiar products such as ETFs or outcomes-based fund products.








Conclusion

Trust and confidence in financial markets by savers is more important than ever.








Market actors – advisers, distributors and asset managers – as well as regulators need to work together to provide solutions that allow end-investors to plan effectively for their future financial needs.

Regulators can put the right incentives in place, particularly by ensuring that the upcoming business model changes are centred around the investors' needs and consistent across providers.

APPENDIX: REGULATORY CHANGES IN EUROPE AND FURTHER AFIELD

WORLDWIDE REGULATORY TRENDS		
Jurisdiction	Scope	Timing
European Union 	<p>Markets in Financial Instruments Directive 2</p> <p>MiFID 2 covers the sale and distribution of investment products such as investment funds (UCITS and retail AIFs) and structured bank-based products. It does not cover the distribution of life assurance products.</p> <p>It has the following outcomes:</p> <ul style="list-style-type: none"> • A ban on receipt and retention of commissions by independent advisers and by discretionary portfolio managers. • Other advisers (e.g. tied or restricted) entitled to retain commission payments but enhanced conduct rules to ensure that advisers in closed architecture models are appropriately incentivised. • Member States entitled to impose stricter requirements such as requiring payment of commissions back to the end-client or moving to a complete ban on payment of retrocessions. • Greater focus on adviser setting out the services to be provided to end investors. • No ban on commission payments to execution-only platforms which do not offer advice. <p>Insurance Mediation Directive 2</p> <p>Although the initial aims were to extend MiFID 2 style rules to insurance intermediaries the most recent European Parliament text simply calls for greater transparency on the intermediary's remuneration.</p>	<p>Final political agreement reached in January 2014 with implementation by end 2016/early 2017</p> <p>Final text not yet agreed – date of implementation uncertain but likely to be aligned with MiFID 2</p>
Early movers on RDR		
United Kingdom 	<p>The Retail Distribution Review was implemented on 31 December 2012. It requires new qualifications for advisers and a ban on commissions between product providers and fund distributors on new business, forcing advisers to adopt fee-based models to replace revenue streams.</p>	<p>First stage came into force as at 31 December, 2012.</p> <p>Further requirements on platforms came into force in April 2014</p>
Netherlands 	<p>Ban on payment of commission for mortgage credit, income insurances, unit-linked insurances, annuities and non-life insurances took effect in January 2013. Inducement ban in respect of investment services to retail came into force on 1 January 2014. A transitional regime exists for transactions in financial instruments and open-end funds (for such funds, under the condition that the fees are being “onpaid”).</p>	<p>Inducements for asset management services to retail clients no longer allowed since January 2014. One-year transition for open-end funds</p>
Active adopters		
Sweden 	<p>There is currently an industry consultation underway entitled: “We must be able to trust the consumer protection,” which suggests implementing a new regulation for financial advisory services. This could bring more transparency on the way advisers communicate about the types of product they sell and of potential conflicts of interest. A further consultation is expected on implementing commission bans in Sweden in summer 2014.</p>	<p>Sweden may take action ahead of the official MiFID 2 implementation date</p>
Denmark 	<p>Actively considering the impact of implementation of RDR in the UK and Netherlands before planning further changes to the Danish market.</p>	<p>Uncertain whether Denmark will take action ahead of MiFID 2</p>
Focus on promoting independent advisers as a competing business model		
Belgium 	<p>Proposed 2012 Bill would ban payment of commissions for discretionary portfolio management and to independent financial advisers but not to tied or restricted advisers. No moves likely before MiFID implemented.</p>	<p>Unlikely to come into effect ahead of MiFID</p>
Germany 	<p>Pending any changes in MiFID the focus has been on permitting the payment of commissions subject to increased levels of transparency as to the cost of advice. The new Facilitation and Regulation of Fee-based Investment Advice Act introduces a legal framework for fee-based investment advice in financial instruments which can be offered by investment services enterprises. This is in addition to ordinary MiFID investment advice based on the disclosure of any commissions received by advisers from issuers of financial instruments or intermediaries. Clear rules on status disclosure will make it clear to consumers whether investment advisers are being remunerated through commission from product providers or purely through client fees. In addition, the new law places additional requirements on fee-based investment advisers to have a sufficient knowledge of the market when advising clients.</p>	<p>Regime for independent advisers mainly comes into force in August 2014</p> <p>Other changes likely to be tied to MiFID 2 implementation</p>

APPENDIX: REGULATORY CHANGES IN EUROPE AND FURTHER AFIELD *(continued from previous page)*

WORLDWIDE REGULATORY TRENDS		
Jurisdiction	Scope	Timing
No move likely in advance of MiFID 2		
<p>France</p> 	<p>France supports a ban on payment of commissions for discretionary portfolio management and has for many years banned commission payments to managers of funds of funds. The regulator has in the past raised concerns about potential churning in any move away from commission to fee-based advice. Fund of fund managers have been prevented from receiving commissions for many years</p>	<p>Any regulatory moves unlikely before adoption of MiFID 2</p>
<p>Italy</p> 	<p>Possibility that Italian market will move to a dual system of fee-based and commission-based advisers. A commission ban on discretionary, managed fund platforms receiving commission has been in place since the introduction of MiFID 1.</p>	<p>Any regulatory moves unlikely before adoption of MiFID 2</p>
OTHER MAJOR MARKETS OUTSIDE THE EU		
<p>Australia</p> 	<p>The Future of Financial Advice (FoFA) reforms came into force from 2013. There are restrictions on percentage-based fees and a ban on receiving commissions for new advice from July 2013. Retail clients must agree to 'opt in' to on-going adviser charges every two years.</p>	<p>FoFA in force since 1 July 2013</p>
<p>Canada</p> 	<p>The Canadian Securities Administrators released a consultation paper in 2012 regarding the regulation of mutual fund fees in Canada. Paper solicited comments on a number of proposals including potentially capping or banning commissions and mandating advisers to provide a baseline level of services in order to be eligible for their trailing commission.</p>	<p>Regulatory response expected in 2014</p>
<p>India</p> 	<p>The Securities and Exchange Board of India (SEBI) has banned entry loads for all Mutual Fund schemes effective August 2009. Further, SEBI has directed that the scheme documentation shall carry a suitable disclosure to the effect that the upfront commission to distributors will be paid by the investor directly to the distributor/intermediaries, based on his assessment of various factors including the service rendered by the distributor/intermediaries.</p>	<p>In force since August 2009</p>
<p>Singapore</p> 	<p>In 2012, MAS launched the Financial Advisory Industry Review (FAIR) initiative to look at the payment of retail commission. The outcome was to focus on bank incentive models rather than move to an outright ban.</p>	<p>Measures in response to the initiative include a balanced scorecard remuneration framework which rewards the provision of good quality advice to align the interests of financial advisers with that of customers</p>
<p>Switzerland</p> 	<p>Fund law fully revised, some aspects match AIFMD in order to allow recognition. Distribution regime now much tighter, classification of investors does not match EU rules. Investment advice regime extended to qualified investors. New financial services law to mirror MiFID 2 is in draft form.</p>	<p>New fund law comes into force in stages, some parts already in force, fully by March 2015</p>
<p>US</p> 	<p>The current regime allows the coexistence of commission-paying and fee-based advice models for US broker dealers/financial advisers. In recent years, there have been significant market moves away from commission-paying financial advice and more towards asset-based fees.</p>	<p>No immediate change expected</p>

- 1 BlackRock's Investor Pulse survey conducted from 24 August 2013 to 27 September 2013 among a nationally representative sample of 17,600 individuals aged 25 to 74. Sample per market is as follows: UK (n=2,000), Germany (n=2,000), Italy (n=2,000), France (n=1,000), Netherlands (n=1,000), Switzerland (n=600), Belgium (n=1,000), US (n=4,000), Canada (n=1,000), Hong Kong (n=1,000), Taiwan (n=1,000), Australia (n=1,000).
For further details see:
Australia: <http://www.blackrockinvestments.com.au/individual/insights/investor-pulse/investor-pulse>
Canada: <http://www.blackrockinvestments.ca/individual/en-ca/resources/investor-pulse>
France: <http://www.blackrock.fr/insights/perspectives-de-marche/investor-pulse>
Germany: <http://www.blackrockinvestments.de/privatanleger/gewusst-wie/investor-pulse>
Hong Kong: <https://www.blackrock.com.hk/individual/en-hk/insights/investor-pulse>
Netherlands: <http://www.blackrock.nl/particuliere-beleggers/nl-nl/insights/investor-pulse/maar-wat-kan-ik-het-beste-doen-met-mijn-geld>
Switzerland: <http://www.blackrock.ch/individual/en-ch/getting-started/investor-pulse>
United States: <http://www2.blackrock.com/us/individual-investors/insight-education/investor-pulse>
UK: <http://www.blackrock.co.uk/individual/insights/investor-pulse>
- 2 The calculation is exclusive of any state or other benefits that may be available in each country and is based on the saver wishing to ensure they have enough capital to provide their desired income.
- 3 Source: BlackRock Investor Pulse survey.
- 4 BlackRock Investor Pulse Adviser survey, conducted in association with research agency Cicero Group in September 2013. Sample per market is as follows: UK (n=100), Germany (n=100), Italy (n=100), US (n=500).
- 5 FTfm, 17 November 2013: "The captive asset manager's choice: give up, give in or wake up" <http://www.ft.com/cms/s/0/4634a80e-4acc-11e3-8c4c-00144feabdc0.html?siteedition=uk#axzz2lCxu5bmO>
- 6 "Restoring investors' trust in Europe's markets", speech at the BBA Annual Conference in 2012, London. <http://www.esma.europa.eu/system/files/2012-675.pdf>

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