

3 October 2022

ESMA issues a Public Statement on the Impact of Inflation in the Context of Investment Services to Retail Clients

Background

Over the past months inflation rates have risen in the European Union, as in the rest of the world, and this growth in inflation has impacted households both in their daily lives and in their investments and investment decisions.

The European Securities and Markets Authority (referred herein as “ESMA”) notes that from an investor protection perspective, this trend poses a risk for retail investors, as some of them will not fully appreciate the link between inflation and financial markets and may not fully understand how considerations on inflation should be factored in their saving and investment decisions.

Scope

ESMA is issuing this Statement to remind firms of the relevant MiFID II requirements as it believes that investment firms may play a role in considering inflation and inflation risk, both when manufacturing and distributing investment products, as well as when providing investment services to retail clients, in the interest of investor protection.

MiFID II Requirements

The following are the requirements extracted from MiFID II which are being included within this [Public Statement](#). All licensed entities are encouraged to read through this Public Statement, which contains further detail on the following areas:

i. Fair, clear and not misleading

ESMA believes that firms should ensure that the information they address to retail clients reflect in comprehensible form, inflation risks and the possible effect this may have on the value and return of the investment.

ii. Suitability

ESMA would expect firms, as part of the suitability assessment, to carefully consider, as part of the assessment of market risk and credit risk, the risk that inflation will undermine the performance and/or the value of an investment. In this respect it is particularly important that firms carefully assess and understand clients’ investment horizons.

iii. Product governance requirements

ESMA expects that manufacturers and distributors consider the effect of the expected inflation in their product governance processes.

Next Steps

ESMA and the National Competent Authorities will continue to monitor closely financial markets and their participants in the interest of safeguarding the stability of the European Union's financial system, by enhancing the protection of investors and promoting stable and orderly financial markets.