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Dutch investment advisors' perceptions towards the MiFID II directive

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Abstract

Purpose – The Markets in Financial Instruments Directive (MiFID) II directive was enforced in the EU in January 2018. While EU-member states implemented this directive in their national legislation, investment firms are still enforcing compliance. With the purpose of "investor protection", the purpose of this study is to investigate the effectiveness of transparency, suitability, warning and information requirements. How do investment advisers view and embrace these MiFID II requirements? Are differences evident within this group of professionals?

Design/methodology/approach – In total, 267 Dutch investment advisors serving non-professional investors daily completed structured surveys on their opinion of the acceptance and effectiveness of the MiFID II requirements. The findings are compared with existing literature to examine similarities with other legislation.

Findings – The results demonstrated differences depending on the investment firms' size and investment advisors' seniority and gender. Professionals should be critical of new legislation and regulations, as it limits their autonomy. However, female investment advisors and those with up to ten years' experience are less critical of the effectiveness of the MiFID II requirements, embracing them without discussion. Investment advisors in large investment firms believe that MiFID II contributes to investors' interests, whereas those in small and medium-sized investment firms often do not share this opinion. For example, respondents considered cost transparency an effective requirement to achieve better investment services and protect investors' interests.

Originality/value – The effectiveness and applicability of legislation are often viewed from a legal perspective, and enforcement is essential. However, this study explores legislation from the perspective of professionals under supervision.

Keywords Implementation, legislation, effectiveness, MiFID, investment advisors, investment advice

Paper type Research paper

1. Introduction

The European investor directive Markets in Financial Instruments Directive (MiFID I; 2004/39/EC) was enforced on 1 November 2007 to make European financial markets more transparent and strengthen investor protection. In January 2018, a new directive (2014/65/EU, "MiFID II") came into effect and is applicable for all investment firms operating in the EU. Both MiFID I and MiFID II have had and continue to have a significant impact on the investment sector. In daily practice, both investors and investment professionals

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experience the influence of the directive on trading and the reporting that goes with it. This may include mandatory, pre-transactional cost transparency; possible trading platforms; several warning requirements; suitability (reporting); and periodic value statements – all examples of legislation implemented to protect the investor (whether professional or retail). When it comes to the effectiveness of MiFID II, there is also much criticism. A fortiori, the cost of implementing MiFID II is estimated at $2.1bn [1]. Panagopoulos *et al.* (2015, p. 58) state that "the effectiveness of MiFID on reducing the effects owing to the structural fragmentation of the market could perhaps be burdened by the cost of increasing the probability of a systemic risk". In a keynote speech in November 2019, the European Securities and Markets Authority (ESMA) Chairman, Steven Maijoor, acknowledged a position paper from the German Ministry of Finance, published in summer 2019, which highlighted a "great deal of discontent" with several requirements under the regime following consultation with market participants. In particular, the German regulator said that the respondents strongly criticised the breadth of the requirements, implementation costs, short time-frames and insufficient coordination of MiFID II and packaged retail investment and insurance products (PRIIPS) rules.

Notwithstanding the costs and scepticism, how are specific MiFID II requirements perceived in terms of effectiveness? Now that MiFID II is embedded in day-to-day processes, it is interesting to test whether certain requirements (in particular, specific information and warning requirements for non-professional investors) are considered effective by investment professionals who are in regular contact with these investors. The acceptance of new requirements is subject to several academic insights. Firstly, the legal and financial literature about the acceptance of new legislation is presented. Here, based on past research, the effectiveness of new legislation is discussed. Next, the results of the study on the effectiveness of MiFID II requirements are presented. The last section discusses the findings of the survey and provides recommendations for further research.

There are some limitations to this study. Firstly, it was conducted in the Netherlands, and so no general conclusions can be drawn about the European Union. Another limitation is that certain respondents may have had no comprehensive information or training on the requirements of MiFID II at the time data were collected. Nevertheless, it may be assumed that basic knowledge is available on MiFID II, especially when dealing with (professional and retail) investors directly.

2. Literature review

2.1 Acceptance and effectiveness of legislation

Legislation should be deemed to serve the public interest and provide reassurance that freedom is not misused. Still, resistance can be expected when legislation is enforced, but the person (or persons) subjected to it does not understand or accept said legislation. This is especially the case when legislation directly impacts personal or professional freedom. When legislation is forced upon a professional, they can experience a gap between the purpose of the legislation and its real meaning. Therefore, new legislation is often considered either imperative or repressive. When it comes to investment professionals, a certain discretionary freedom or the possession of "discretionary powers", a typical criterion for being a professional, is highly rewarded (Frowe, 2005). However, the acceptance of new legislation may depend on several criteria, some of which are discussed later in this paper.

2.1.1 Seniority as a criterion. The professional's experience can play a role in the acceptance of new regulations. Joshi *et al.* (2008) confirmed this in a survey conducted with 52 Bahraini accountants, responding to the implementation of the International Financial Reporting Standards (IFRS). The results showed that the more experienced respondents had different views on several issues than those with less experience. Compared to the latter, the former significantly more often thought that the harmonisation of accounting standards is a worthwhile objective that can be gradually accomplished. Experienced accountants tended to indicate greater agreement with the advantages of harmonisation and expressed fewer concerns about the challenges and disadvantages. Regarding the comprehensiveness of IFRS for accounting issues in Bahrain, the means for more experienced accountants were significantly higher than those with less experience. Bozkurt *et al.* (2013) researched the acceptance and adaptation of IFRS. They collected data using a questionnaire survey with 430 accountants and auditors. Based on the results, they determined that participants see significant advantages in the application of new standards. Accountants and auditors think that the application of IFRS will increase the comprehensibility and reliability of financial statements and reduce accounting fraud. Here, 72.2% had 10 or more years of work experience as an accountant or auditor, and 46.6% had more than 15 years of work experience.

2.1.2 Gender difference as a criterion. Although no research has been found that provides a definitive answer to gender differences in dealing with acceptance of financial legislation, studies do provide direction on how the genders deal with risk and legislation. Bord and O'Connor (1997) provided evidence that supported a risk perception hypothesis. Women have a different attitude to risk than men. Studying concerns regarding the environment, they found finding differences in the risk perception of environmental concerns when it was operationalised in ways that trigger women's heightened sensitivity to risk. For example, the survey questions focussed on environmental issues widely perceived as risks and the response formats addressed the levels of "worry", "concern", or "seriousness". Xiao and McCright (2012) confirmed this finding. They found that gender has a consistent effect on risk perception. Therefore, it can be said with some caution that there are gender differences regarding new legislation and certainly, when risk reduction plays a role.

Regarding the effectiveness of new legislation, Boutellier (2004) describes a paradox: On one hand, people want to develop themselves with full freedom, but on the other, they want to be protected by the government against the risks that freedom comes with – a paradox he presents as a "safety utopia". In the financial sector, regulatory density is high. This is, however, a direct consequence of the fact that society has left it up to the legislator to indicate new limits. The financial crisis has shown that there was (and to a certain extent, still is) an asymmetry in knowledge, experience and insight among market parties.

New legislation had to be introduced to stimulate transparency and further reduce the asymmetry in knowledge and experience. For example, Mercer *et al.* (2010) studied the effectiveness of a disclaimer mandated by the Securities and Exchange Commission (SEC). They present the results of an experiment indicating that the disclaimer is "completely ineffective". Participants were asked to read a mutual fund advertisement and complete a survey. The results showed that the standard disclaimer had no impact on beliefs and behaviours, even of people who focus on the advertisement. The researchers described the disclaimer as weak and as providing no new information to investors.

While Mercer *et al.* (2010) state that standardised warnings (in this case, imposed by the SEC) are not effective, Argo and Main (2004) concluded that warnings influence the effectiveness dimensions of attention, reading and comprehension, recall and behavioural compliance more than they do judgements. Nevertheless, Argo and Main (2004) argue that warnings are not effective in influencing consumers' perceived hazards and risks, concluding that asking more personally relevant questions seems more effective. Spindler (2011) is also critical regarding the effectiveness of investor warnings. He argues that traditional legal norms are based on the assumption of rational acting by investors, whereas the financial crisis has shown that this classic assumption has created pitfalls in the economy. Furthermore, he states that it is not yet clear how behavioural economics should lead to an improvement in investor protection.

2.2 Previous research on the effectiveness of MiFID

Views abound regarding the effectiveness of MiFID. Repiquet (2019) argues that partly because of the duty of care under MiFID II, advisors have more knowledge of the investor. This means that investment services fit this investor, which ensures more global financial stability. Research using 43 participants in the European financial markets by Valiante and Bashir (2011) on implementation of MiFID I indicated that the respondents were in general positive towards the more competitive environment that has promoted the reduction of trading fees and large investments in technologies and infrastructure.

Cherednychenko (2010) raised questions regarding the effectiveness of the MiFID II requirements in improving investor rights and restoring the confidence of retail investors. Her concern is that MiFID focuses on public enforcement of the investor protection rules and their maximum harmonisation, so that the needs of the individual retail investor are not sufficiently served.

As for investors classified as “professional” under MiFID, Loonen and Pattiselanno (2019) advise more adequately calibrating the MiFID II requirements applicable to different categories of clients. They argue that the obligations imposed on investment firms in connection with professional clients create a confounding picture and allow for unnecessary ambiguity and may result in damage and liability. Regarding investor protection under MiFID in general, Burke (2009) indicates that addressing informational asymmetries and inequality of bargaining power in the market is, with the exception of enforcement, largely ineffective. These efforts do not serve the needs of the retail investor, who is not equipped to draw a conclusion from these documents to make informed investment decisions. Furthermore, Burke (2009) states that with the exception of Article 19(5), the classification scheme, suitability and assessment requirements and conservative limits on trading activity subject to the provision of information, approvals and warnings are paternalistic and inevitably, expensive.

These statements are congruent with the opinion of professionals. A survey by Core Data Research (2018) of 1,000 financial advisors in the UK revealed that a majority of advisors think MiFID II has been an unnecessary burden (57%), and a similar proportion consider the regulation as a waste of time and money (56%). The professionals see volatile stock markets (28%) and MiFID II as the biggest challenges (19%) in daily practice. In addition, advisors are struggling to see the wider rationale behind the regulation: a third (34%) does not think MiFID II is a sensible package of reforms that will improve industry standards. In addition, a significant number of respondents think the impact of the regulation on both advisors and investors has thus far been detrimental. Nearly a third of advisors (30%) say MiFID II has had an initial negative impact on the advising industry, compared to 21% who think the regulation has been positive. One quarter (25%) says the initial impact on investors has been negative, compared to 17% who say it has been positive. The most challenging aspect of the regulation for advisors is the disclosure of aggregated costs and charges, cited by two-thirds (65%) of the respondents. This is followed by writing suitability reports (32%), recording investor conversations (27%) and reporting when a portfolio has dropped 10% or more (23%). Advisors think increased market transparency (26%), improved investor confidence and trust (23 %), and enhanced investor protection (17%) are the main benefits of MiFID II. Furthermore, advisors have struggled with the implementation of MiFID II: 29% of the advisors say implementation required a lot of work and the same percentage say it was harder than expected. Only 15% said implementation was straightforward and easy. The findings indicate that a lack of planning and preparation is a major cause of difficulties in implementation. When asked what they would have done differently in terms of MiFID II implementation, seven in ten (70%) advisors say they would have started preparing earlier. A quarter (24%) said they would have developed a better strategic plan, and nearly one in five (18%) would have invested in more operational resources.

3. Methodology

3.1 Sample

This research focuses on the experience with the MiFID II regulations of financial advisors working in the Dutch investment sector. This sector includes approximately 1,800 registered investment advisers and is experiencing high regulatory pressure as new legislations are increasingly being introduced. In this sector, the legal and economic effectiveness of legislation is frequently examined. However, professionals' experience in the workplace is hardly involved in the practical effectiveness of new legislation. Therefore, this research focuses on this group of professionals, who were asked to participate in an online survey.

3.2 Survey and questionnaire

An online survey was conducted from May to June 2019. The questionnaire was designed with the help of experienced MiFID specialists. Selections were made from MiFID II provisions that directly influenced the relationship between an investment adviser and retail client. Important criteria were that the (new) rule had to be concrete (with measurable obligations), non-professional investors had to be immediately confronted with this (new) rule, and the (new) rule had to regularly play a role in the communication between the investment adviser and non-professional investor. The following five MiFID II provisions were selected:

- independent or non-independent investment advice (Article 24(4)(a) of Directive 2014/65/EU);
- the 10% threshold warning (Article 25(6) of Directive 2014/65/EU);
- providing a suitability statement (Article 25(2) for Directive 2014/65/EU);
- cost transparency (Article 24(4) (c) of Directive 2014/65/EU); and
- ability to bear losses (Article 25(2) of Directive 2014/65/EU).

The questionnaire consisted of three parts: (A) background information, (B) work and clients and (C) MiFID II regulations. The background information items covered gender, age, number of years working in the financial sector and company size (A1–A4). The items on work and clients were related to the clarity of rules (B1–B4), one's work (B5–B10) and contact with clients (B11–B14). The items on MiFID II asked about MiFID II obligations (C1–C5). All questions in parts B and C were measured on a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) for all questions in part B, and from 1 (very negative effect) to 5 (very positive effect for) for all questions in part C.

The questionnaire was first tested in a pilot study among 54 investment advisors working for an investment firm. Respondents were invited to fill out the questionnaire online. Based on these (pilot) results, the questionnaire was adjusted on a number of points for the main study.

All respondents for the main study were informed in writing about the aim and objectives of the research and the methodology that would be applied. They were further informed that participation was completely anonymous. The respondents were approached in two ways: via a website for investment professionals in The Netherlands (called

"Fondsnieuws") and via banks. In the latter case, the employer approached the employees by email with the request to use the link to the digital questionnaire. There was no direct involvement of the employers in this study.

Ultimately, a representative sample of 267 Dutch investment advisors participated in the main study. Table 1 presents respondents' demographic characteristics.

3.3 Data analysis

The variables were analysed using Statistical Package for the Social Sciences (SPSS). The analyses included (bivariate) correlations and an analysis of variance (ANOVA) to test for group differences. Significant results from the ANOVA were followed by Tukey post-hoc tests to indicate which groups differed significantly from each other in terms of the variable of interest.

Before the data were analysed, the variables age, number of years working in the financial sector, and company size were recoded to ensure the ANOVA could be performed with large enough group sizes. Age was recoded into three categories: ≤44 years, 45–54 years and 55+ years. Number of years working was recoded into four categories: ≤ 10 years, 11–20 years, 21–30 years and 31+ years. Finally, company size was recoded into three categories: ≤100 employees, 101–500 employees and 501+ employees.

Correlations were calculated between all (part) B variables (work and clients), between all C variables (MiFID II regulations) and between all B and C variables. Further, background information (A) was related to all B and C variables through the ANOVA (for categorical background variables) or by calculating correlations (for numeric background variables).

4. Findings

4.1 General

A number of general comments can be made about the perceptions of Dutch investment advisors of the influence of MiFID II on their work. Firstly, a large majority (87.6%) of respondents, significantly more often male investment advisors than female investment advisors, stated that their work has become more demanding since the introduction of MiFID II in 2008.

Respondents' demographic characteristics	*N* = 267	(%)
Gender of respondents		
1) Male	229	85.8
2) Female	38	14.2
Age of respondents		
1) ≤ 44 years	86	32.2
2) 45–54 years	119	44.6
3) ≥ 55 years	58	21.7
Missing	4	1.5
Work experience in the financial sector		
1) ≤ 10 years	36	13.5
2) 11–20 years	93	34.8
3) 21–30 years	106	39.7
4) ≥ 31 years	32	12
Number of employees		
1) ≤ 100 employees	39	14.6
2) 101–500 employees	79	29.6
3) ≥ 501 employees	149	55.8

Table 1. Demographic characteristics of respondents

Seniority plays a significant role here. Respondents with shorter seniority in investment services (up to and including ten years) are significantly more likely to report that work as an investment advisor has become more enjoyable over the past five years than respondents who have been working in investment services for a long time (>30 years). The size of the investment firm also plays a role. Respondents working for a large investment firm (≥501 employees) are significantly less likely to believe that their work has become more demanding, as compared to respondents working for a medium-sized (101–500 employees) or small (≤100 employees) investment firm.

In general, the introduction of MiFID II has not contributed to greater job satisfaction: 92.5% of respondents indicated that the work of an investment advisor has not become more enjoyable in the past five years. However, this does not mean that Dutch investment advisors are *en masse* considering leaving investment services. Of the respondents, only 19.5% said that they were seriously considering this.

4.2 Clarity of MiFID II requirements

The respondents were asked to share their opinion on the clarity of the MiFID II directive. This has been investigated at two levels: the extent to which the employer contributes to clarifying the MiFID II requirements and extent to which the investment advisor delves into them by reading explanations from the European or Dutch regulators. In general, a majority (57.9%) of respondents indicated that the MiFID II requirements are clear. Despite this statement, there appears to be a considerable amount of internal discussion among investment firms about the interpretation of MiFID II requirements, as indicated by more than half the respondents (77.4%).

Regarding the investment advisor's efforts to be informed about the MiFID II requirements, only a small proportion of respondents reported reading the MiFID II explanations from the European regulator, the ESMA (16.1%), or the Dutch regulator: Authority Financial Markets (AFM) (20.6%).

While large and medium-sized investment firms still have compliance and legal departments to study and interpret the MiFID II requirements, investment advisors in small investment firms seem to obtain significantly more information from the explanations provided by the ESMA and AFM regulators.

A connection between knowledge of the MiFID II requirements and internal discussion is evident in the fact that the more clear respondents claim to find the MiFID II requirements, the less they are involved in internal discussions on how to interpret them. Noticeable is that male investment advisors (3.42) experience significantly more discussion about the MiFID II requirements than female investment advisors (2.97).

In addition to gender, age and work experience also play decisive roles when answering the question about internal discussions regarding the MiFID II requirements. This contrasts the aforementioned findings of Joshi *et al.* (2008) and Bozkurt *et al.* (2013). The older the respondent and the longer they have been working in the investment sector, the more the MiFID II requirements are discussed internally. Perhaps more interesting is the observation that there is a significant difference between respondents who work at large investment firms and those at medium-sized investment firms. The latter experience significantly more internal discussion about the interpretation of the MiFID II requirements than the former. Finally, it appears that investment advisors who state that the MiFID II requirements are clear mostly derive this knowledge from reading the explanations of the regulators, ESMA and AFM.

4.3 Support for the implementation of MiFID II requirements

There is causality between reading the explanations of the MiFID II requirements by ESMA and AFM and then stating that these requirements are clear. In other words, reading these explanation(s) demonstrably contributes to the feeling that the investment advisor knows the MiFID II requirements well. Noteworthy is that respondents who claim to read one of the two explanations (either from the AFM or ESMA) also often read the explanation of the other supervisor. Reading these explanations also contributes to more discussions with the employer about the MiFID II requirements.

4.4 Assessment of the effectiveness of specific MiFID II requirements

As part of this research, five specific requirements from MiFID II were further investigated. These requirements have a direct effect on the relationship between the investment advisor and non-professional investor.

4.5 Independent or non-independent investment advice (article 24[4][a] of directive 2014/65/EU)

The scope of the investment advice given by investment firms on an independent basis could range from broad and general to specialised and specific. An investment firm that provides investment advice on an independent basis and focusses on certain categories or a specified range of financial instruments should market itself as such. This makes it clear to the investor the basis on which the investment advice is being given. Table 2 illustrates the specific response about the MiFID II obligation to indicate whether investment advice has been provided on an independent basis.

4.6 10% threshold warning

Investment firms providing portfolio management should inform the investor when the overall value of the portfolio, as evaluated at the beginning of each reporting period, depreciates by 10% and thereafter, multiplies by 10%. This should be done before the end of the business day on which the threshold is met (Table 2).

4.7 Providing a suitability statement

When providing investment advice, investment firms should provide a report to the retail investor that includes an outline of the advice given and how the recommendation provided

	To indicate if investment advice is independent or non-independent on investor protection?	Regarding the 10% threshold warning on investor protection?	To provide a suitability statement on investor protection?	To provide cost transparency on investor protection?	To determine the ability to bear losses on investor protection?
Very negative	2.2	8.2	6.0	8.6	3.4
Negative	8.2	24.7	29.2	20.6	9.4
Neutral	56.9	37.5	48.3	44.2	46.1
Positive	31.8	27.3	15.4	24.3	36.0
Very positive	0.7	2.2	1.1	2.2	5.2
Total	100.0	100.0	100.0	100.0	100.0

Table 2. Response on questions on the effect of a specific MiFID II requirement. "What is the effect of the MiFID II requirement. . .?"

is suitable. This should include how it meets the investor's objectives and personal circumstances with reference to the investment term required, the investor's knowledge and experience and investor's attitude to risk and capacity for loss (Table 2).

4.8 Cost transparency

Investment firms should meet the requirements to disclose information on all costs and charges. For ex-ante and ex-post disclosure of information on costs and charges to investors, investment firms should aggregate all costs and associated charges charged by the investment firm or other parties when the investor has been directed to such other parties for the investment services or ancillary services provided to the investor, and all costs and associated charges associated with the manufacturing and managing of the financial instruments. Third-party payments received by investment firms in connection with the investment service provided to an investor shall be itemised separately, and the aggregated costs and charges should be totalled and expressed both as a cash amount and a percentage. Furthermore, investment firms shall provide annual ex-post information about all costs and charges related to both the financial instrument(s) and investment and ancillary service(s) where they have recommended or marketed the financial instrument(s) or have provided the investor with the KID/KIID [2] in relation to the financial instrument(s) and have or have had an ongoing relationship with the investor during the year. Table 2 shows the response to this MiFID II requirement.

4.9 Ability to bear losses

When investment advice is provided, various requirements must be met. The suitability statement was mentioned earlier in Article (25[2]) of MiFID II. The same Article contains the new obligation to determine "the ability to bear losses" as part of the client's financial situation (Table 2). This is in addition to the necessary information regarding the client's knowledge and experience in the investment field relevant to the specific type of product or service and their investment objectives, including their risk tolerance. In summary, Table 2 shows the results for this component.

Whether cross-variable comparisons can be made for these requirements was also investigated, and significant correlations were found. For example, it appears that respondents who state that they are well supported by their employer's IT systems also believe that the MiFID II requirements positively contribute to investor protection (0.261). Respondents who generally state that the MiFID II requirements contribute to investor protection also indicate that adhering to MiFID II helps them provide better advice in the interest of the investor.

4.10 Difference in gender, seniority and the size of investment firms

The difference between male and female investment advisors is striking regarding the perceived effectiveness of the MiFID II requirements. Male investment advisors, for example, appear to be less convinced (2.36) than female investment advisors (3.16) that MiFID II helps them provide investors with better advice. This seems congruent with the previously mentioned studies that show that women are more willing to adopt legislation and are more risk averse than men.

Some literature shows that in some cases, differences between men and women could be explanatory. According to Gilligan (1982), women are fundamentally oriented towards relationships and process, and men towards outcome justice. Researchers (Clay-Warner *et al.*, 2013) have built on these theoretical foundations, predicting that women will value fair procedures over fair outcomes and be less likely to use the equity norm than men. The

MiFID II requirements are intended to support the investment advisory process and procedures, which may be an explanation. In terms of breaching the law, research also provides some views on gender differences. In research on readiness to evade tax, females scored higher than males, indicating that women were strongly opposed to tax evasion (McGee and Lingle, 2005).

Investment advisors who have been working in the financial sector for less than ten years (3.00) also appear to be considerably more positive about the effect of the MIFID II requirements than those who have been working in the financial sector for a long (21–30 years; 2.42) to very long (≥ 31 years; 2.00) time. This is not congruent with the findings of Joshi *et al.* (2008) and Bozkurt *et al.* (2013), who found that more senior accountants are particularly inclined to embrace IFRS legislation. It is remarkable that respondents working for a large investment firm (3.00) believe more strongly than other respondents (small investment firm [2.67] and medium-sized investment firm [2.43]) that MiFID II makes investors better informed and, therefore, better discussion partners. In general, investment advisors at large investment firms (2.34) stated significantly more often than those at medium-sized (1.85) or small investment firms (1.87) that MiFID II ensures that investors experience better investment services. This is confirmed by the fact that respondents working at large investment firms believe that MiFID II requirements such as the (digital) warning for a 10% decrease in value (3.16), suitability statement (2.91), pre-transactional cost transparency (3.09) and ability to bear losses (3.41) have a positive effect on the quality of investment services. This contrasts the opinions of respondents from small and medium-sized investment firms. Berger *et al.* (2005) provide an explanation, which closely corresponds to the oft-discussed dichotomy between "relationship lending" and "transactions-based lending" (Berger and Udell, 2002). Berger *et al.* (2005) concluded that larger financial institutions provide credit in a different way than smaller financial institutions. Larger financial institutions focus on standardising processes and on obtaining "hard information". This is usually documented information such as annual reports or tax returns. This information can then be assessed relatively easily and unambiguously and possibly passed along within the hierarchy. Here, laws and regulations can be a catalyst to structure and standardise processes. Small financial institutions, on the other hand, have frequent and intensive contact with customers and thus obtain soft information consisting of interview reports and reflections. Moreover, because this soft information is not easily transferable by the firm, the banker might have a certain degree of market power (Sharpe, 1990; Rajan, 1992), which would further tie the firm to the bank. According to the researchers, this creates an intensive relationship based on trust. Trust and regulation often seem at odds with each other. Legislation and regulations can quickly be regarded as paternalistic and redundant and explain the critical attitude of investment advisers working for smaller investment firms.

Remarkably, investment advisors who have been working in the financial sector for a shorter period (≤10 years) are significantly more likely to believe that MiFID II contributes to advising in the interests of investors (Table 3). The same group of respondents also state that their clients have experienced better investment services after the implementation of the MiFID II requirements. This is in contrast to investment advisors who have been working in this sector for a long time. Respondents working at a medium-sized investment firm (101–500 employees) say significantly more often than those at large (≥501 employees) and small companies (≤100 employees) that MiFID II helps them to provide better advice in the investor's interests.

Finally, this is particularly apparent in the cost transparency obligation. Respondents who state that they can better advise the investor because of MiFID II, or that investment

	The investor is better informed by MiFID II (e.g. about costs) and, therefore, a better discussion partner for me as an investment advisor	My investors experience better investment services after the implementation of the latest guidelines from MiFID II	Because of the increased transparency in costs, these are more often the subject of discussion between the investor and me
Because of the MiFID II requirements, I can better tailor my advisory services to the situation of my investors			
Correlation	0.557*	0.638*	0.186*
The investor is better informed by MiFID II (e. g. about costs,) and, therefore, a better discussion partner for me as an investment advisor			
Correlation	1	0.560*	0.258*
My investors experience better investment services after the implementation of the latest guidelines from MiFID II			
Correlation	0.560*	1	0.253*

Note: *Correlation is significant at the 0.01 level (two-tailed)

Table 3. Impact of MiFID II on investment service to private investors

services have generally been improved by MiFID II, say significantly more often that this is (partly) because of the (mostly digital) confirmation to the investor that an advised transaction is suitable (0.428) and because of the cost transparency requirements under MiFID II (0.453).

6. Discussion and conclusions

No definitive conclusion can be drawn about the effectiveness of MiFID II according to Dutch investment advisors. This is partly dependent on the seniority and gender of the investment advisor and on the size of the investment firm where the investment advisor works. Firstly, investment advisors working for large investment firms are more often of the opinion that MiFID II enables them to better tailor their investment advice to the investor's situation, whereas those working for small and medium-sized firms are more critical. This is not congruent with other research where employees with more seniority embrace new legislation.

Male investment advisors are critical of the effectiveness of MiFID II requirements, while female advisors are more positive of the effectiveness thereof. The reason for this remains unknown. Conversely, investment advisors in large investment firms state that their investors experience better investment services after the implementation of the MiFID II requirements.

There is a significant difference between male and female advisors as to whether there is much internal discussion about the interpretation of MiFID II and their experience of it. The age of the investment advisor is also important. The older the advisor, the more discussion is experienced. This also applies to investment advisors with a long track record of working in the financial sector. The longer they have been there, the more internal discussion they experience on MiFID II. In contrast to the findings of Joshi *et al.* (2008), the more experienced investment advisors were found to be critical of the introduction of MiFID II, whereas the less experienced ones are more positive.

When comparing this study of Dutch investment advisors with a similar study conducted in the UK (Core Data Research, 2018), a few things stand out. First, British advisors have similar professional feelings towards MiFID II as the Dutch. Where 57% of the financial advisors in the UK consider MiFID II an unnecessary burden and 56% consider it a waste of money, 59.9% of the Dutch investment advisors feel negatively towards the added value of MiFID II in helping to advise their clients better. However, it appears that the English investment advisors have a more negative attitude towards the added value of MiFID II. For example, 17% of English advisors say that MiFID II has a positive impact on the client, whereas over 40% of the Dutch advisors stated that the client's interests are better served by the implementation of MiFID II. Regarding specific MiFID II requirements such as cost transparency, 26% of the English investment advisors consider this an advantage, whereas more than 63% of the Dutch investment advisors are neutral to (very) positive about this. It can, therefore, be concluded that Dutch investment advisors are more positive about the effects of MiFID II than their English counterparts.

The MiFID II directive includes a number of specific requirements introduced for investor protection purposes. Whereas scholars such as Mercer *et al.* (2010) and Argo and Main (2004) conclude that standardised warnings seem ineffective, Dutch investment advisors also seem to have little faith in these warnings. Respondents who indicate that MiFID II helps them better advise their clients believe that it is significantly more likely because of cost transparency.

The research results demonstrate that Dutch investment advisors certainly do not have a uniform (negative) opinion of the effectiveness of MiFID II and its specific requirements. Important nuances can be made in various areas. Further research is required to determine how clients of these investment advisors experience the MiFID II requirements. Empirical research into the possibly changed investment behaviour of the investor as a result of the MiFID II requirements could also be a valuable addition and contribute to the discussion on the effectiveness of MiFID II.

There are a number of limitations to this research. Firstly, it relates to investment advisers. This means that it is unclear what asset managers, for example, think of the MiFID II requirements. Furthermore, this study was aimed at the Dutch market; thus, a broad pan-European vision of MiFID II is not provided.

Notes

1. Source: Expand (a Boston Consulting Group company), 2016.
2. The Key Information Document (KID) for PRIIPs is a mandatory, A4 three-page information document to be provided to consumers before purchasing a PRIIP. PRIIPs include, for example, investment funds, structured products and unit-linked and with-profits life insurance contracts (source: ESMA).

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Appendix. Survey

Below are the structured questions included in our survey with Dutch investment advisors:

A. General information

1. Information about yourself (please tick as appropriate)

Gender:
- o Male
- o Female

Your age: ………………….. years

Number of years you have been working in the financial sector: ……………………… years

What is the size (total number of employees) of the investment firm where you work?

- o ≤ 50 employees
- o 51–100 employees
- o 101–500 employees
- o ≥ 501 employees

B. Statements about your work and client

What is your response to the statements below? *(Please circle the applicable option)*	*1. Strongly disagree* *2. Disagree* *3. Neutral* *4. Agree* *5. Strongly agree*
Clarity of rules	
The MiFID II obligations are clear to me.	1 - 2 - 3 - 4 - 5
There is a lot of internal (within my employer) discussion about the interpretation of the MiFID II obligations.	1 - 2 - 3 - 4 - 5
I regularly read explanations of the MiFID II obligations of the ESMA regulator.	1 - 2 - 3 - 4 - 5
I regularly read explanations of the MiFID II obligations of the AFM regulator.	1 - 2 - 3 - 4 - 5

You and your work	
My work as an investment advisor has become more demanding since the introduction of MiFID II in early 2018.	1 - 2 - 3 - 4 - 5
Working as an investment advisor has become more fun in the last five years.	1 - 2 - 3 - 4 - 5
I am seriously considering leaving investment services.	1 - 2 - 3 - 4 - 5
I receive sufficient guidance from my employer to understand the MiFID II obligations.	1 - 2 - 3 - 4 - 5
The systems at my employer provide sufficient support to fulfil the MiFID II obligations.	1 - 2 - 3 - 4 - 5
MiFID II helps me to advise even better in the interest of the client.	1 - 2 - 3 - 4 - 5
Contact with clients	
Thanks to the MiFID II obligations, I can better tailor my advisory services to the situation of my clients.	1 - 2 - 3 - 4 - 5
The client is better informed by MiFID II (about costs, for example) and therefore a better discussion partner for me as an investment advisor.	1 - 2 - 3 - 4 - 5
My clients experience better investment services after the implementation of the latest guidelines from MiFID II.	1 - 2 - 3 - 4 - 5
Because of the increased transparency in costs, these are more often the subject of discussion between the client and me.	1 - 2 - 3 - 4 - 5

(*continued*)

C. Statements about specific MiFID II obligations

What effect do you think the MiFID II obligations listed below have on investor protection? Please tick one box.

(1 = very negative effect, 2 = negative effect, 3 = neutral, 4 = positive effect, 5 = very positive effect)

		1	2	3	4	5
1	The obligation to inform the client whether investment advisory services are 'independent' or 'non-independent'.					
2	The (mostly digital) warning if a financial instrument with leverage (e.g. options) falls by 10% or more.					
3	The (mostly digital) confirmation to the client that an advised transaction is suitable.					
4	Informing the client (digitally) prior to the transaction of all costs associated with a proposed transaction.					
5	The KYC obligation to determine the 'loss capacity' of a client.					

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