

WWF response to ESMA consultation on: Guidelines on certain aspects of the MiFID II suitability requirements

Q2: Do you agree with the suggested approach on the arrangements necessary to understand clients and specifically with how the guideline has been updated to take into account behavioural finance and the development of robo-advice models? Please also state the reasons for your answer.

Q7: Do you agree with the suggested approach on to the arrangements necessary to understand investment products for the purposes of suitability assessment? Please also state the reasons for your answer.

In section V.II “Know your client and know your product” there can and should be several improvements regarding guidelines 2 and 7.

For many years there has been a large discussion about the lack of useful sustainability data throughout the investment chain in order for investors to make well-informed decisions factoring sustainability issues where relevant. In the case of retail investors, a survey¹ conducted by Natixis Global Asset Management with over 7000 respondents in 22 countries points out that for around 70% of retail investors, non-financial aspects are important factors for their decision making. Similarly, a survey from Schroders² surveying 22,100 people from 30 countries found that 78% think sustainable investing is more important to them now than five years ago.

Such high majorities must be adequately captured and integrated in the process to select a product, to ensure that the clients’ investment objectives are fully understood and that suitable products can be recommended on that basis.

How to concretely address this failure? A recent study³ from 2 Degrees Investing Initiative analysed current profiling practices and questionnaires used in Europe, and found that even if the clients have non-financial objectives and preferences, they do not appear in the questionnaires. WWF believes that it creates two serious problems:

- Clients will most likely not raise their own non-financial interests and objectives if they do not see that it is part of the profiling process, even though they think it is an important factor;
- Another important issue raised in the study is that even if the clients mentions their interests and preferences about non-financial objectives, there is a high risk that the final range of products proposed will not contain such information. This is due to the common lack of products containing non-financial objectives in the investment adviser’s selected packages.

WWF therefore recommends the ESMA to:

¹ Natixis Global Asset Management, 2017: [Mind shift – Getting past the screens of responsible investing](#)

² Schroders (2017), [Global perspectives on sustainable investing 2017](#)

³ 2 Degrees Investing Initiative, 2017: [Non-financial message in a bottle – how the environmental objectives of retail investors are overlooked in MiFID II – PRIIPs implementation](#)

1. Include in the ESMA guidance that the investment adviser shall consults the client on non-financial objectives and preferences. For example, clients may be interested in investing in a product aligned with the 2°C climate target of the Paris Agreement;
2. Explicitly integrate non-financial objectives and preferences as part of the questionnaire when choosing a product.

WWF believes that clients' interests shall be adequately taken into account when offering financial products, including non-financial objectives and preferences that are linked to environmental, social and governance (ESG) issues

Furthermore, the High-Level Expert Group on Sustainable Finance (HLEG, where WWF has a representative) included in its Interim Report⁴ from July 2017 the following early Recommendation 7:

"The HLEG recommends that the Commission ensure that:

- *The ESAs address sustainability issues within their existing objectives. In particular, they could develop common guidelines and supervisory convergence on ESG disclosure by investors and lenders at the EU level, creating a level playing field across borders and investor categories (pension funds, insurance, mutual funds, asset managers, banks and banks' clients). This could be linked to the Non-Financial Reporting Directive and its 2017 guidelines, with the aim of improving ESG-related data to feed into risk assessment processes.*
- *The ESAs encourage a certain percentage of representatives in stakeholder groups to have expertise on sustainability issues in the financial sector.*
- *The ESAs play a role in facilitating general coordination between competent authorities on sustainability issues, as already set out in ESA regulations."*

Building notably on the HLEG's early recommendation, the European Commission presented in September 2017 a "ESAs package"⁵ to strengthen the supervision of the European financial markets. It explicitly includes a chapter on *"Integrating sustainable finance considerations into financial supervision"*, and is accompanied with proposals of regulatory amendments. The document states: *"the European Supervisory Authorities can play an important role in creating a regulatory and supervisory framework that supports mobilising and orienting private capital flows towards sustainable investments while ensuring financial stability. (...)As a first step towards a more comprehensive strategy, the proposals accompanying this Communication specifically require the European Supervisory Authorities to take into account of to environmental, social and governance factors arising within the framework of their mandate. For example, this will enable the Authorities to monitor how financial institutions identify, report, and address environmental, social and governance risks, thereby enhancing financial viability and stability. The European Supervisory Authorities can also provide guidance on how sustainability considerations can be effectively embodied in relevant EU financial legislation, and promote coherent implementation of such rules upon adoption."*

⁴ High-Level Expert Group on Sustainable Finance, July 2017: [Financing a sustainable European economy](#)

⁵ European Commission, September 2017: [Reinforcing integrated supervision to strengthen Capital Markets Union and financial integration in a changing environment](#)

WWF believes that the ESMA's mandate will likely be updated following the above Commission's package.

The ESMA has a great opportunity to clarify in its guidance of the MiFID II suitability requirements, that non-financial objectives and preferences shall be integrated in the questionnaire for retail investors.

Finally, WWF is concerned about the lack of knowledge on sustainability issues from the investment advisers, making it even less likely to provide the necessary and complete information to the retail investors in case they are interested in these issues (which according to the Natixis and Schroder surveys above mentioned is the case for 70-78% retail investors). The ESMA should include in its guidance that sustainability issues should be integrated as part of the investment advisers' trainings, to ensure they have the knowledge and ability to answer clients' demand adequately.

Regarding robo-advice models, WWF believes that they may be an important opportunity to mainstream sustainability issues. The robo-advisers would enable the integration of sustainability interests (non-financial objectives and preferences) in the questionnaire and provide far more granular analysis, results and advice in case of interest from the client. It is very likely that robo-advisers will be developed for the retail investor market. As this process may take a few years to be implemented, we believe that robo-advisors could already be used by investment advisers as a complementary tool for their daily work.