

**European Securities
Markets Authority**

**103 rue de Grenelle
75007 Paris
France**

Milano, 13th October 2017

Object: Reply to Esma Consultation Paper on Guidelines on certain aspects of the MiFID II suitability requirements

Dears Sirs,

Our Association represents the italian investment firms who provide financial advice service on independent basis.

We wish to thank you for the opportunity to participate to the Consultation on the Guidelines on certain aspects of suitability requirement.

Please find below our observations.

Thank you for your attention.

Kind regards.



The Chairman
Massimo Scolari

Guidelines on certain aspects of the MiFID II suitability requirements Consultation Paper

V.I INFORMATION TO CLIENTS ABOUT THE PURPOSE OF THE SUITABILITY ASSESSMENT

Guideline 1

Q1: Do you agree with the suggested approach on the information to be provided on the suitability assessment and specifically with the new supporting guidelines on robo-advice? Please also state the reasons for your answer.

Customer risk profiling as a service

Our Association believes that the process of profiling client risk and assessing suitability is an essential element of the financial advisory service.

In our experience we have noticed that when the process of collecting and processing customer information is effective, the investment advice service provided is better and customer satisfaction is higher.

We therefore consider it important for the investment firm to make it clear that responsibility lies with the firm itself.

We therefore agree that the investment firm should communicate the objectives and modalities of the process to the client.

We would also like to add that the collection and evaluation of client information should be a tool to enhance the financial literacy of the client, helping him to understand the relationship between risk and return on investments and the different risk dimensions associated with each investment.

Furthermore, we are convinced that the investment firm, after collecting and processing the information, should communicate the results to the client, explaining the reasons and indicating which type of investment service or financial instrument the client can expect to receive in the light of the results of the risk profiling process.

The algorithm is my friend

When an investment firm uses digital tools for the collection and analysis of information, we believe that it should provide the client with all information relating to the calculation methodologies used, the mechanisms for weighing the information and the assumptions underlying the results of the valuation.

We would like to point out that the quantitative approach to the assessment of information does not only concern robo-advice, but is also used by many investment firms even when they provide for human interaction.

Recommendations on the transparency of quantitative processes and algorithms should therefore not be addressed only to robo-adviser but to the generality of investment firms.

V.II KNOW YOUR CLIENT AND KNOW YOUR PRODUCT

Arrangements necessary to understand clients Guideline 2

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.

Our Association has provided associated investment firms with a standard questionnaire to suggest a consistent approach to the collection and processing of client information.

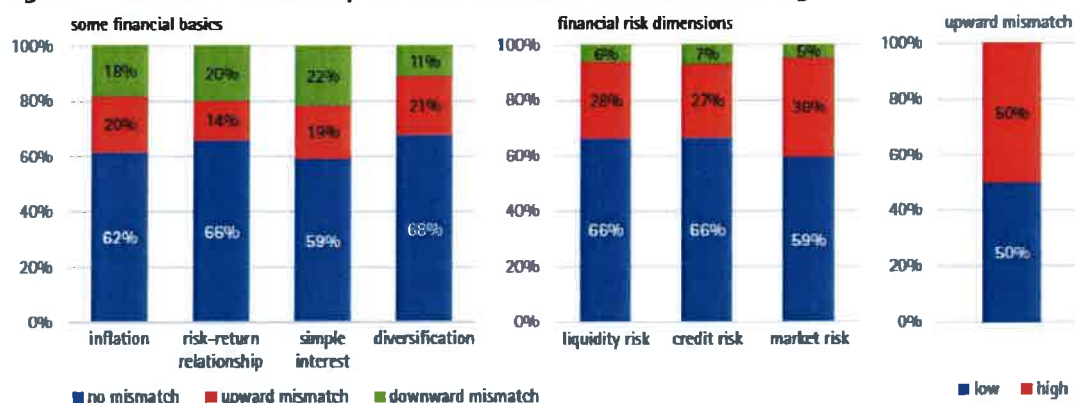
This model is divided into 4 sections. In the first phase, when the customer's attention is greater, the most complex questions are asked.

Questions relating to the customer's personal data (age, family status, age of children, professional profession, degree) are requested at the end of the questionnaire, when attention and concentration of the customer is expected to be lower.

We have included in the section dedicated to the level of knowledge and experience also questions aimed at ascertaining knowledge of at least the basic elements of investments and financial instruments.

In fact, we believe that the incorrect assessment of one's own financial knowledge (over-estimation and underestimation) is one of the main obstacles to the proper performance of the investment advisory service.

Fig. 2.5 – Mismatch between perceived and actual financial knowledge



Source: Consob, report on financial investments of Italian households, October 2017

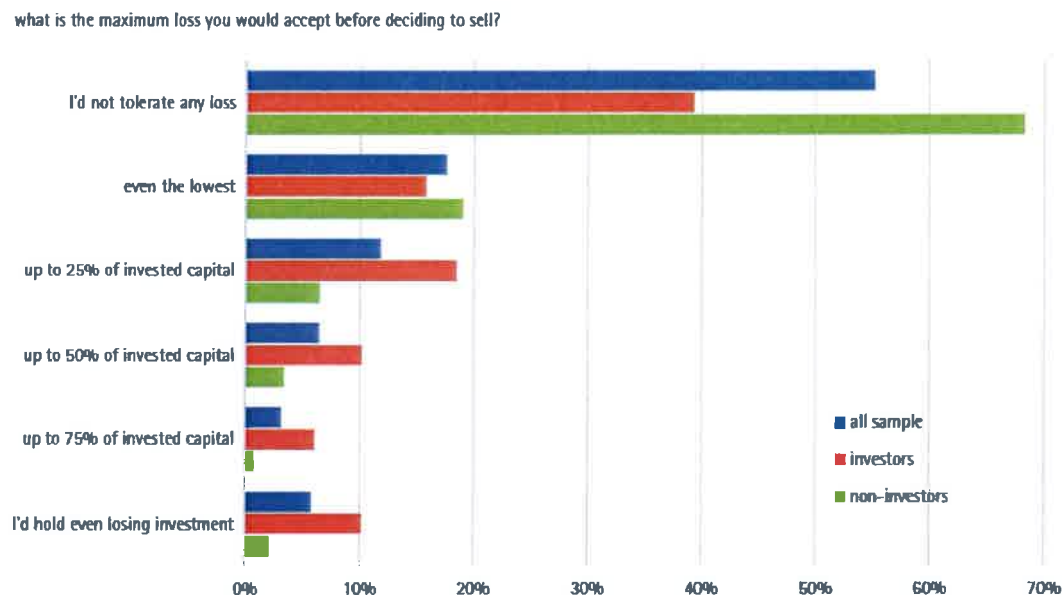
In the questionnaire we also included a specific question aimed at identifying any "disposition effect" in the customer's typical behaviour.

Q3: Do you believe that further guidance is needed to clarify how firms should assess clients' ability to bear losses?

Financial losses? No thanks

The customer's direct demand for financial losses does not appear to be an effective way of ascertaining the level of losses that the customer can actually afford.

Fig. 2.22 – Loss aversion



Source: Consob, report on financial investments of Italian households, October 2017

Our opinion is that a loss can be defined as tolerable if it does not significantly affect the customer's standard of living and if it does not prevent the achievement of his objectives within the reference time horizon.

We believe that it would be more useful for the investment firm to use information about the client's financial situation, level of income and savings, indebtedness and other financial commitments to assess in quantitative terms the amount of loss that the client can tolerate.

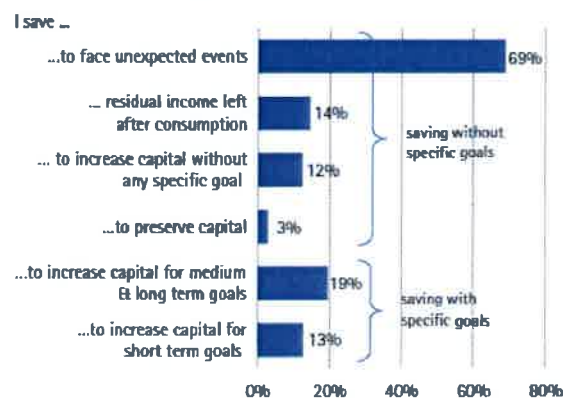
Extent of information to be collected from clients (proportionality)

Financial planning

The available evidence on the determinants of household savings in Italy shows that financial planning is scarce in the medium and long term.

Savings are not usually targeted at specific objectives to be achieved in the future. The main motivation appears to be to save for "rainy days". A motivation therefore mainly precautionary.

Fig. 3.20 – Determinants of saving



Source: Consob, report on financial investments of Italian households, October 2017

In the light of these considerations, we believe it is important that the extension of information on client characteristics, financial situation and investment objectives should also be extended to non-financial aspects (such as, for example, the ownership of the home, the situation of insurance cover, any holdings in family businesses, inheritance or generational changeover issues).

The analysis of objectives and risks, including non-financial ones, provides important information that may be relevant for the assessment of the suitability of investment recommendations, in particular for the assessment of liquidity risk, credit and market risk.

Finally, we agree to collect and analyse information on financial instruments held by the client.

Reliability of client information

Guideline 4

Q4: Do you agree with how the guideline on the topic of ‘reliability of client information’ has been updated to take into account behavioural finance and the development of robo-advice models? Please also state the reasons for your answer.

Reliability of customer responses

We agree that the reliability of the answers provided by the customer may also depend on the type of demand.

When setting up the questionnaire for the collection of information, it is preferable to ask questions that exclude a qualitative evaluation or customer self-assessment. Rather, the reference to factual circumstances, the use of numerical examples and simple language help to obtain more reliable answers.

With regard to risk tolerance, it may be useful, for example, to investigate the frequency of observation of financial results to which the client is accustomed. A higher frequency, all other factors being equal, indicates increased anxiety and reduced risk tolerance.

Finally, we would like to point out that the client must be encouraged to provide reliable answers also through a clear indication (even in the title of the document) that the questionnaire is an investor protection tool.

Updating client information

Guideline 5

Q5: Do you agree with the suggested approach on the topic of ‘updating client information’? Please also state the reasons for your answer.

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Client information for legal entities or groups

Guideline 6

Q6: Do you agree with the suggested approach to conduct the suitability assessment for a group of clients, especially where no legal representative is foreseen under applicable national laws? Please also state the reasons for your answer.

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Arrangements necessary to understand investment products

Guideline 7

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.

Know your product

Knowledge of the characteristics of financial products recommended to clients and their proper classification is of considerable importance in order to ensure the suitability of investment recommendations.

We believe it is essential that the procedures governing the knowledge and classification of financial products are consistent with product governance policy and target market definition.

The knowledge and proper classification of products must focus on the various risk factors (liquidity, credit, market risk) and their complexity.

Finally, we believe that the impact of each financial instrument within the client's overall portfolio should be carefully considered.

V.III MATCHING CLIENTS WITH SUITABLE PRODUCTS

Arrangements necessary to ensure the suitability of an investment

Guideline 8

Q8: Do you agree with the additional guidance provided with regard to the arrangements necessary to ensure the suitability of an investment? Please also state the reasons for your answer.

Portfolio approach to assessing adequacy

Our vision of matching customer satisfaction with the characteristics of financial products is based on a portfolio approach.

We believe that a valuation of an individual investment cannot be effective unless it relates to the total investments made by the client.

The suitability assessment parameters of the recommendations are therefore related to typical portfolio risk measures.

However, we consider it equally important that the degree of concentration of the portfolio by asset class and by individual financial instrument is to be carefully considered.

Excessive exposure on individual issuers should be avoided.

We also agree with the recommendation in paragraph 81: even within a portfolio approach, the client's knowledge and experience of individual constituent financial instruments, in particular complex financial instruments, must be assessed.

Costs and complexity of equivalent products

Guideline 9

Q9: Do you agree with the suggested approach for ensuring that firms assess, while taking into account costs and complexity, whether equivalent products can meet their clients' profile? Please also state the reasons for your answers.

Costs and complexity of equivalent products

Our Association brings together investment firms and financial advisors who adopt the model of advisory on an independent basis.

One of the main features of independent advice is the obligation to take into account a wide range of financial instruments, to make comparisons and to select instruments that are client-suitable and have better features in terms of cost and simplicity.

The ex-ante analysis of product costs in order to recommend the best value for the client must be carried out taking into account the total costs that the client has to bear as well as the complexity and cost associated with the channels of trading.

For example, the listing of highly liquid financial products on regulated markets can be an important factor in accessing a financial instrument with greater simplicity and lower costs.

Costs and benefits of switching investments

Guideline 10

Q10: Do you agree with the suggested approach for conducting a cost-benefit analysis of switching investments in the context of portfolio management or investment advice? Please also state the reasons for your answer.

Cost-benefit analysis of portfolio switches

As far as the procedures to be implemented to analyze the costs and benefits of portfolio switches are concerned, we believe it is important to distinguish two different cases: in the first case, a portfolio switch can be carried out in order to modify the asset allocation of the portfolio (for example, to satisfy the client's need for greater liquidity or to adjust the portfolio to view the financial market outlook).

In the second case, when the switch concerns financial instruments belonging to the same asset class, it is carried out in order to optimise the portfolio.

In the first case, the comparative analysis of the costs of financial instruments, while remaining important, is less relevant than the benefits of the correct allocation of the portfolio.

In the second case, where financial products investing in the same asset class should show similar behaviour, the comparative assessment of costs and charges is normally more relevant.

Within these two extreme cases, there are several intermediate cases which should be considered individually.

V.IV OTHER RELATED REQUIREMENTS

Qualifications of firm staff

Guideline 11

Q11: Do you believe that further guidance would be needed with regard to the skills, knowledge and expertise that should be possessed by staff not directly facing clients, but still involved in other aspects of the suitability assessment? Please also state the reasons for your answer.

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Record-keeping

Guideline 12

Q12: Do you have any further comment or input on the draft guidelines?

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Q13: What level of resources (financial and other) would be required to implement and comply with the Guidelines (market researches, organisational, IT costs, training costs, staff costs, etc., differentiated between one off and ongoing costs)? When answering this question, please also provide information about the size, internal organisation and the nature, scale and complexity of the activities of your institution, where relevant